USINESS ORGANISATION

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CONTENTS

BUSINESS ORGANISATION

CHAPTER I

INTRODUCTORY

Economics and Commerce

Economics is a study of mankind in relation to wealth. It is therefore a social science. Man has several kinds of activities, of which Economics studies only such as relate to wealth getting and wealth spending.

Commerce refers to human activities, which are concerned generally with buying and selling of economic commodities or wealth. Hence, Commerce is closely allied to Economics. It may be said to form a part of the study of Economics. Economics is a broader science, dealing with both theories and practices pertaining to wealth, while Commerce deals with that branch of Economics, which deals with the exchange of commodities in actual practice. Economics is really a study of wealth from the standpoint of individuals, nations, and the world, whereas Commerce is a study of wealth from the point of view of a businessman, and sometimes known as Business Economics. Commerce implies more practical bias in its study.

Economics and Business

Business is a broader term than Commerce, and includes Commerce and Industry in various forms in practical application. Economics studies production, consumption, and distribution of wealth, while Business is concerned with the practical application of theories of Economics. Business may be said to be concerned with the practical side of the science of Economics, and so the importance of the science of Economics is vital for a businessman. What a businessman is

actually practising from day to day is merely an application of the theories of Economics. Economics can help a business-man to understand the fundamental principles underlying his work, methods and practices. What is happening, how and why it is happening, these answers a businessman can find in Economics. A study of Economics becomes therefore fundamentally important for a businessman in order to enable him to understand the scientific working of his business, and to plan his business in such a way that it may be conducted along scientific and profitable lines.

Trade and Industry

Industry and production in Economics mean practically the same thing. Industry means production of wealth or value in Economics. So, it includes manufactures, agriculture, mining, fishery, forestry, merchandise, transportation, etc.

Trade means that technical process in Economics, which is concerned with the exchange of commodities. The function of a trader is to act as an intermediary in order to facilitate the transfer of commodities from the producer to the consumer. In this modern world of complexities, the trader is essentially required in order to facilitate the exchange of commodities.

Thus, we see that industry and trade have essentially economic foundations. Whatever economic values are produced by industries are given additional utilities by trade, by transferring goods from producer to consumer.

When an exchange of commodities takes place within a country, it is known as Home Trade ; if it is extended amongst different countries it is called Foreign Trade. Import Trade means bringing foreign goods in a country for consumption, while export trade consists in sending home goods to foreign countries for consumption. Again, trade may be wholesale or retail. In wholesale trade, a merchant buys goods from a producer in large bulk at a cheaper price in order to sell these again to ordinary dealers or shopkeepers at a higher price. The ordinary retail dealers or traders generally buy goods from

wholesalers in order to sell those to direct consumers at some profits. Though traders are middlemen, they are essentially required in the modern economic system, where producers are many, consumers are widely scattered and competition is keen.

Business Organisation

Business denotes human activity directed towards producing or acquiring wealth through the processes of buying or selling goods. Men generally enter business to make money, and money-making involves production of things which men desire. Business, therefore, rests on technical processes of trade and manufacture as well as it must look to the market. A businessman is either engaged in the technical process of production or gauging the market, or doing both. In all events, he is engaged in buying and selling to make gains. Business is based upon an exchange of commodities and the exchange should naturally be made on basis of mutual gains to both the exchanger and the exchangee.

Business may be of two kinds, namely, business from the social point of view and business from the individual standpoint. The former type is said to be productive when it adds to the net sum of goods and services which men desire. But business from the individual point of view may include activities, which do not really increase the net sum of goods and services like *e.g.*, advertising. A large part of advertising consists in taking for one businessman what another loses. An advertising agent may act in many cases merely as a middleman, but as he is paid for his services and makes money in that way, he should be considered as doing business.

Economists are all agreed that business organisation consists in bringing about a harmonious working of the factors, namely, land, labour and capital, for producing or acquiring wealth. In so combining the above factors, effectively, a fourth factor, namely, Business Enterprise or Enterpreneurial ability is required, which is the essence of any business unit.

The main object of a study of business organisation is to equip one with a theoretical training in business. A theoretical background is likely to be of great importance for a practical businessman. Though it is very often found that people have reached the peak point of a business career without possessing any theoretical knowledge, the importance of the latter in present-day economics cannot be gainsaid. Theoretical knowledge by itself may not be enough, but other criteria of business success coupled with a sound knowledge of theories bearing on business will certainly render a great help to any aspirant in business career. With the gradual complexities in modern business, a study of business life, and a study of business organisation have become very important. Modern production with factory organisation, scientific management of labour, rationalisation of industries ; modern internal trade with transport problems, warehousing facilities, departmental stores, multiple shops, hire purchase systems ; present international trade with restrictions and regulations, comparative costs of production ; intricate problems of currency, banking, exchange and prices—all these unfold their mysteries and become fully distinct to a businessman, who has a theoretical background of training. A study in theories and practices of Commerce and Trade and Industry enable a practical businessman to visualise things in their proper perspectives. It enables him to plan his economic project with a foresight and statesmanship. It enables him to understand the forces which work in his practical life. It equips him with a knowledge to understand the impacts and implications of all the tendencies which are at work in business.

Success in modern business world comes to one, who can earn profits by earning an income over his expenses. In order to understand accurately his costs, and real financial position, a study of accountancy and audit will stand a businessman in good stead. He may get the work of accountancy done by a paid staff, but his own knowledge in the line will enable him better to grasp its significance, and exercise due checks and balances.

Wealth

Wealth in Economics means commodities having value in exchange. In order to possess such value, a commodity must have utility, scarcity and transferability. Economic wealth, therefore, includes goods which are limited in quantity in relation to demand, have powers of satisfying human wants and are capable of being transferred from one person to another regarding ownership.

Production

Production in Economics means production of utility, which has value in exchange. In this world, it is not possible either to create or destroy new matter. In producing any economic commodity what human beings are doing is simply changing existing matter by some form of re-arrangement so that some utility is added to existing matter.

Consumption

Consumption in Economics also similarly refers to destruction or consumption of utility, which is produced. It means the satisfaction of human needs. It is the end of all economic production. It adds to human welfare.

Distribution

Before production is actually consumed, it tends to pass through several hands. In modern economic system, producers are not generally the consumers of their own goods, and hence production is distributed amongst ultimate consumers through various processes. This element of exchange is now common to all spheres of economic activities.

Production, Distribution and Consumption now form the main divisions of Economics, and Business Organisation deals with the practices in connection with these branches.

Agents of Production

In any form of economic production, generally the harmonious co-operation and working of the four factors of production are involved, namely, Land, Labour, Capital and Organisation.

Land

Land in Economics includes all natural resources and forces which are the free gifts of nature, without requiring any assistance of mankind.

The Law of Diminishing Returns

In the cultivation of land, we generally discern a common tendency which is now stated in what is known as the Law of Diminishing Returns. An increase in the application of labour and capital applied in equal successive doses in the cultivation of land causes in general a less than proportionate increase in the amount of produce raised, provided it does not happen to coincide with an improvement in the process and technique of cultivation.

Labour

Labour denotes all human efforts of either body or mind, directed towards producing wealth in Economics. If it succeeds in producing the wealth it becomes productive labour ; if it fails, it is then called unproductive labour.

Division of Labour

It denotes the distribution of man-power in the community in such a way as to obtain maximum production and quality of the output. It implies division of work amongst people in order to allow each to concentrate on that part of work which suits him most. It leads to specialisation.

The division of labour increases skill and dexterity of workers through constant repetition of the same task ; physical fatigue of workers is much relieved ; time is saved in learning a process ; work is reduced to a uniform routine and it becomes possible to use machinery more extensively and efficiently ; mobility of labour and invention are more encouraged. It leads to the maximum utilisation of labour by employing each in a job which suits him best and leads to the localisation of industries with all its advantages and defects.

As against the above advantages, the division of labour has been responsible for introducing various evils of the factory system ; constant repetition has made work monotonous ; specialisation also leads in many cases towards narrowing the outlook and intelligence of the workers, and thereby renders labour immobile. It tends to destroy personal touch between worker and employer. It becomes a system of merely cash nexus.

Localisation of Industries

The division of labour implies specialisation as applied to workers, while the localisation of industries refers to specialisation as applied to localities. There is a tendency for certain areas to specialise in the production of particular commodities, *e.g.*, Jute Industry in Bengal.

Among the factors leading to the localisation of industries, accessibility to raw materials and markets used to be very popular. The development of modern transport has, however, reduced the importance of this factor in the present age. Proximity to power has also been one of the most potent factors, *e.g.*, the Indian iron and steel industries have developed roundabout the coal area. The introduction of electricity and oil power may, however, gradually take away from the importance of this factor. Royal and Court patronages have also caused localisation of industries, *e.g.*, in case of the silk industry of England, the muslin industry of Dacca, etc.

Among the various economic advantages, the localisation of industries has brought about a generation of skilled workers and developed subsidiary industries in the neighbourhood. Owing to its several advantages, once industries are localised in particular areas, they tend to stay there. If an industry is localised in a particular area, the locality suffers most if depression comes in that industry only. There is serious unemployment, and workers find it difficult to migrate to different areas owing to their specialisation.

Capital

It may be defined as that part of wealth which is used in the production of further wealth. It is therefore the combined

result of past labour and saving. It is saved out of past wealth or production.

Fixed Capital

It exists in a durable form. It is not exhausted by a single use and can be used repeatedly. Buildings and machinery are examples of fixed capital, whose return depends upon the length of the period during which it is used.

Circulating Capital

It is generally exhausted by its single use in the production in which it is engaged. As for example, raw materials are generally used only once in producing further wealth.

The Functions of Capital

Capital is fundamentally important in modern production, which is assisted generally in three ways.

In the first place, it provides mankind with sustenance in the form of supply of food, clothing and shelter. Secondly, it supplies in modern production the appliances, instruments and machineries, which have rendered present production so quick, voluminous and accurate. Capital feeds production with various raw materials, which are necessary for manufactures and industries.

Accumulation of Capital

Since Capital must be saved out of past wealth, it is necessary that people must save in order to accumulate capital. In so saving, two conditions may be discernible. There are certain (1) subjective conditions resulting in the will to save. These usually take the form of (a) family affection, (b) provision for old age, (c) security of life, (d) safety of saving, (e) stability of Governments, (f) reasonable rates of interest and so on. (2) The objective condition consists in the power to save. Before anybody can be expected to save it is necessary that he must possess surplus of income over necessaries of life. Formerly, it was believed that since people had to save by sacrificing present pleasure, capital was

the result of sacrifice. Now, it is found in practice that the majority of saving in society is made by those, who have such surpluses of income, that they can hardly spend. This is why, it is now held that saving is generally or more often the result not of sacrifice but of waiting.

Organisation

We have already seen that in modern economic production, three agents, namely, land, labour and capital are required. But these agents by themselves cannot produce, unless they are brought together in effective and harmonious working. The last function is now so important that it is entrusted in the hands of those, who specialise in organising production, and are known as Business Enterprisers or Entrepreneurs.

The Entrepreneur plays a very important role in Economics. His main task is so to organise that labour and capital when employed may yield maximum results, and then he appropriates to different factors of production their legitimate remuneration. Land is to be paid rent, labour wages, capital interest, and what is left is retained by him as his profits.

The Entrepreneur is really the keystone of modern production. He anticipates and forecasts demand ; he plans production ; he is responsible for selecting the site of the factory, its equipment and organisation. He generally undertakes to organise sales in order to obtain maximum gains. To him is entrusted the entire management of the industry and its labour force. He is to impart discipline to the entire mechanism of production. How to employ workers under ideal conditions is his main task. He pays all attention to keep the industrial machinery free from conflicts between labour and capital.

Generally, it is found that Entrepreneurs often undertake risks of production by supplying capital of their own. Now-a-days, through the institution of public limited companies, capital is very often provided by a large number of shareholders, and the Entrepreneur is entrusted with the task of organising the business.

Large-Scale Production

In Economics, we find both small-scale and large-scale units of production, and these systems of production are found in industries according to the nature of the latter, and the nature of demand, which is met by the industry. Extractive industries like agriculture and farming where the law of diminishing returns tends to operate are generally suitable for small-scale production. On the other hand, manufacturing and constructive industries where generally the principle of increasing returns operates are undertaken on the principle of large-scale production. Besides, large-scale production is suitable for turning out commodities, whose demand is steady, standardised or even increasing. Commodities having uncertain or spasmodic demand, or where individual tastes and fashions are to be satisfied, are suitable for small-scale production. There are certain industries like railways, steamship companies, iron and steel industries, which will require from their very inception a large outlay of capital, and as such they must require large factories, expensive and big machineries from the very beginning.

Advantages of Large-Scale Production

Economics of division of labour, material and supplies can be secured from large-scale production. The maximum utilisation of products is feasible under a system of large-scale production. When transactions are undertaken on a large-scale, better terms can be obtained in purchases and sales ; cheaper rates may be possible in transport, insurance and kindred other things. A large-scale unit makes it possible to use modern and expensive machineries and implements. Fixed charges like rent are proportionately reduced ; more advertising and publicity are possible ; better research and experiment are feasible. The large-scale production may utilise skilled labour to the maximum.

Disadvantages of Large-Scale Production

The large-scale production lacks in personal touch and attention. Employers, employees and customers have no personal

contacts with one another, and relationship amongst them is based on cash nexus. The management tends to be departmentalised, concentrated, and as such gives rise to red-tapism. As elaborate systems of checks and balances are required, and the owner cannot attend to all details, things have to be done by a salaried staff. The large-scale production generally leads to monopolies in the form of combinations and associations.

Law of Increasing, Decreasing and Constant Returns

In economic production, we usually find three tendencies operating. Where doses of labour and capital applied in successive instalments tend to produce proportionately greater returns, we have an example of increasing returns industry. If successive units of labour and capital applied in production result in less than proportionate returns, a case of diminishing returns industry is found ; where the returns remain constant, we have an example of a constant returns industry.

Limitations on Size of Business Units

Even in production where large-scale economies are clearly discernible, there are obvious limits beyond which the size of an industrial unit cannot grow consistent with economic advantages. There is always an optimum point of growth in every business and when this maximum productivity point has been reached in any industry, any further expansion becomes uneconomic. Any additional application of labour and capital will then result in diminishing returns. The limitations on the growth of any industrial unit arise mainly from the standpoint of management. When the size of an industrial unit becomes very large, the management and supervision tend to become difficult and more expensive, and hence costs of production tend to become higher. Thus, a business unit can expand only up to a point, which the Entrepreneur can manage efficiently so as to obtain maximum economies of production.

Proprietory or Personal Business

In a proprietory business, an individual is the sole proprietor of the business. He manages and controls the business.

He may supply his own capital or hire it on his own responsibility. He is responsible in the business to an unlimited amount, even to the extent of his whole private properties. Since, responsibility and ownership of capital are combined in a personal business, it tends to be very cautious, prudent and conservative. An individual exercises direct personal supervision, and hence there is a tendency towards greater economy and efficiency. Proprietory business is inherently limited in its scope, since a single man can only control capital supply to a limited extent. Proprietory business tends to flourish in occupations, where personal supervision and contact are important factors. In a personal business, decisions may be quick.

Partnership

It is a form of business undertaking, where a body of individuals associate together in business in order to make profits. Partners are responsible in the business to an unlimited extent, nay, to the extent of their private properties, except in England where sometimes limited partnerships are allowed. Partners contribute their capital and labour to the business, and are remunerated according to an agreement, tacit or otherwise, entered into amongst themselves for the purpose of the partnership business.

Advantages of Partnerships

The principle of unlimited liability in partnership business is a salient safeguard against risky ventures. It tends towards conservatism and caution. A partnership firm can be easily formed and dissolved without much legal formality. It tends to be elastic, and can take in new blood when required. Like a proprietory business, it tends to combine ownership of capital and responsibility of business, with the additional advantage of securing easily a large amount of capital from several partners.

Disadvantages of Partnerships

The absence of legal formalities and the lack of publicity tend to reduce credit and confidence of partnership business.

The principle of unlimited liability makes it unfit for risk-taking enterprises. Partnerships may come to an end by the death, bankruptcy or retirement of a single partner. Dissension may collapse a good partnership business. Though some partnerships may be found to control big business, usually they are not adequate to finance economic undertaking, where a large capital outlay is required. In such cases, the joint-stock company principle of business works better.

Joint-Stock Companies

The joint-stock company principle of business is now recognised as the most suitable one. Capital under this type of business is contributed to by a body of people known as shareholders. They are liable only to the extent of their share capital. They generally control the company through a Board of Directors, who are elected from amongst the shareholders.

Advantages of Joint-Stock Companies

The principle of limited liability encourages investment, and distributes the risks over several heads. It is, therefore, suitable for raising a large amount of capital, and concentrating a large-scale enterprise under one management. Shares being easily marketable are useful institutions for mobilising savings of society in industrial and commercial pursuits. This enables a business entrepreneur to organise a business by dint of his merit, even though he may not possess any capital of his own. The joint-stock company being a legal entity can afford to keep the business in perpetuity. It can maintain continuity of policy and administration. The void caused by the death of any individual manager may be replaced by recruiting an able salaried man. The joint-stock principle enables a large capital to be raised, and is particularly suited to undertakings, where returns to capital are obtainable after some time. By spreading risks amongst several people, the joint-stock companies can afford to experiment with new lines of business, where hazards are likely to be great. Law has prescribed

constant publicity of joint-stock companies, and hence they are admirably suited to banking, insurance and kindred other public utility concerns.

Disadvantages of Joint-Stock Companies

By facilitating the raising of capital, a joint-stock company may slip into the hands of unscrupulous promoters, who may swindle the public. The Board of Directors manages a joint-stock company, and hence decisions are arrived at slowly unlike in a proprietory business, where individuals can act promptly. Disagreement among directors may hamper business. The joint-stock company principle of business is unsuited to a line, where prompt and quick decisions must be made. Though the joint-stock company principle advocates democracy in business management, it becomes really so, provided shareholders take active interest and part in the management of their companies. Unfortunately, the majority of shareholders do not evince any active interest in the business, and the result is that the company is conducted according to the sweet will of a few, who are at the helm of affairs.

Joint-Stock Companies not always large

It should be always remembered that joint-stock companies need not be always large. They may have small share capital, and may be a small scale business.

It is very often found that a sole proprietory business or partnership is after some years of working converted into a joint-stock company with limited liability. The reasons for such conversion may be various. This may be done in order to expand the size of the business by addition of further capital. Partnerships prefer this measure to obtaining additional capital by recruiting new partners. To avoid the responsibility of unlimited liability is also very often a strong incentive. When business expands and personal supervision becomes more difficult to exercise, this step is desirable. This becomes particularly so in case of partnerships, when the number of partners tends to multiply by the accretion of new partners. Sometimes, con-

version takes place, where a sole proprietor, or partners want to avoid the payment of income-tax or surtax through the mechanism of a joint-stock company.

Questions

1. Explain how a study of the principles of Economics may help a businessman in organizing his business on scientific and profitable lines. (B. Com. Cal., 1938).
2. What are the four economic factors of production? (B. Com. Cal., 1940).
3. 'Just as Economics is a part of the study of Sociology, so Commerce is a section of economic study'. Explain this statement. (B. Com. Cal., 1939).
4. State the important distinction between a Partnership Firm and a Joint Stock Company. State shortly the advantages of the latter on the former. (B. Com. Cal., 1926).
5. Describe the function of Capital in modern Industry and Commerce. (B. Com. Cal., 1924).
6. What are the factors upon which the limit to the size of a business organisation will depend? Explain how they act. (M.A. Com. Cal., 1929).
7. What is the need of theoretical training for success in a practical business career?
8. Trade and Industries are said to have Economic basis. Explain clearly what is meant by this statement and give illustrations. (B. Com. Cal., 1941).
9. In many instances it has been noticed that a Sole Proprietorship, or Partnership after some years of its existence has been converted into a Limited Company. Explain various reasons which might have prompted this conversion. (B. Com. Cal., 1935).

CHAPTER II

PARTNERSHIP

Definition

The law of partnership in India is the Indian Partnership Act, No. IX of 1932. A partnership is said to exist amongst persons who have agreed to share the profits of a business carried on by all or any of them acting on behalf of all. Hence, in order to form a partnership there must be more than one person. There should be a business with the common object of earning profits. Each of the persons so forming a partnership is liable for all debts and liabilities of the concern. The individuals who form the partnership are known as partners, and they collectively form the "firm". The "Firm Name" refers to the name in which the business of the partnership is transacted. The partnership should not consist of more than twenty persons, or in case of banking business, ten. Any association exceeding this number must be registered under the Indian Companies Act in order to have legal entity.

Nature of Partnership

A partnership is essentially a contractual relationship. It is a voluntary contract entered into by a certain number of persons, not exceeding as mentioned above. It does not exist simply by virtue of status. Hence, the Hindu Joint Family business is not a partnership, because it lacks in the fundamental element of partnership, namely, the contractual relationship. One becomes automatically a member of the family business simply by virtue of being a member of a family. Partnership agreements are contracts of the class "Uberimæ fidei", *i.e.*, demanding utmost good faith and material disclosure of all facts between the parties.

Partnership at Will

The partnership agreement may sometimes provide for the period during which the partnership is to last. But if there be

no such provision in the articles of partnership, then it is called *partnership at will,* and any partner can determine the period on giving notice of his intention to do so to all the other partners.

How Partnership is formed

Partnership is essentially a contract, and as such can be formed only with the consent of the partners. No formality is required for its formation. It may be in writing or on parole, or it may be inferred from the conduct of the parties.

Since it is a contract, only those are entitled to enter into a partnership business who are competent to make a contract under the Contract Act. Lunatics, minors, undischarged insolvents are precluded from making a contract, and hence also a partnership. A minor may enjoy benefits of a partnership, although he cannot be made personally liable for the acts of the firm. But within six months after attaining majority or within six months of his knowledge of the partnership after attaining majority, a minor must decide whether he wants to remain a partner, or cease to become so. If any alien becomes a partner, the partnership becomes automatically dissolved if war breaks out between this country and the country to which the alien belongs.

Articles of Partnership

Though it is not compulsory that a partnership must be in writing, it is always advisable to do so in order to avoid future troubles and disputes. In the absence of anything in writing, it becomes difficult to prove any matter conclusively, and complications grow up. Hence, generally a partnership is formed by a written agreement, known as the articles of partnership, which define the mutual relations between the partners. The partnership contract generally contains the following particulars, in addition to other matters which the partners want to incorporate in the articles of partnership.

1. The name of the firm
2. The nature of business

3. The period during which the partnership is to last, if it is fixed

4. How capital is to be provided and in what manner
5. Provision for expenses and profits
6. The management of the business
7. The keeping of accounts and audits
8. The banks where accounts are to be kept
9. The authority for signing cheques and other important documents

10. Arrangement to provide for death or retirement of any partner

11. Provision for arbitration in case of disputes amongst partners

12. Arrangement for settlement in case of dissolution of partnership firm.

Articles of partnership can be altered any time with the consent of all the partners. A new partner may be admitted into a partnership firm, provided all other partners agree. Even the transferee of a partner's share does not become a partner unless the other partners agree, although he is entitled to claim, as an assignee, properties on dissolution. Generally, partnership firms charge a sum of money from a new partner as an entrance fee, which is technically known as "Premium".

Name of Firm

A partnership firm may take in any name, except the following words which cannot be used without the consent of the Provincial Governments:—Crown, Emperor, Empress, Empire, Imperial, King, Queen Royal, or words expressing or implying the consent, approval or patronage of the crown, or the Central Government, or any Provincial Government. One may be prevented from using a particular Firm Name by an injunction, where the already known Firm Name has an established reputation, and there is a likelihood of the new firm of misleading or defrauding the public by using the old name.

Rights of Partners

A partner shall have the following rights subject to any stipulation provided for in the articles of partnership.

(1) A partner has a right of access to, and can inspect and copy any of the books of the firm.

(2) Every partner has a right to take part in the conduct and management of the business, although no remuneration is due to him on that account. In case of differences of opinion, every partner has the right of expressing his views before any decision is arrived at, and generally decisions are made by the majority principle. In case of equal division of votes, *status quo* is maintained. But in case of altering any articles of partnership, consent of all the partners must be secured.

(3) A partner is entitled to share in profits equally, and must also bear losses equally of the partnership firm. He is entitled to interest at 6% per annum on any amount advanced by him beyond the capital subscribed under an expressed condition with his other partners and such interest is payable only out of profits.

(4) A partner is entitled to be indemnified by the firm for any payments made by him, or any loss incurred by him in the proper conduct of the business of the firm, or for protecting the firm from any loss, as long as he acts *bonafide* for the benefit of the firm. But no indemnification is allowable in case of liabilities incurred by him through his own negligence, or in disregard of the authority with which he was entrusted.

(5) Rights of any partner continue to exist intact in spite of any change in the firm, or by the continuation of the business after the fixed term if there be any, or any new ventures being undertaken by the firm.

(6) Under certain conditions, a partner has the right to bring in a suit for the dissolution of the partnership. Upon dissolution, a partner can claim to apply the properties of the firm in settlement of debts and liabilities of the firm, and any surplus after this will be distributed amongst partners according to their rights.

Duties of Partners

Subject to any contract, the following duties of partners are implied.

1. The business of the firm must be conducted to the maximum common advantage to all the partners.

2. Partnership rests on "Uberimæ fidei". Partners must be just and faithful to one another. They must render to one another true accounts and full information of all things pertaining to the firm.

3. No partner should make any private profit only for himself at the expense of the firm. No partner should make any profit only for himself by way of commission or otherwise out of purchases or sales of the firm.

4. Every partner is presumed to apply himself diligently and honestly to the work of the firm.

5. The partners should use the property of the firm exclusively for the use of the firm.

6. Every partner should account fully for any profit derived for himself out of any transaction directly or indirectly connected with the firm. Every partner should account for any profit made by him in carrying on business of the same nature as, and competing with, that of the partnership firm, unless he is otherwise authorised to do so under articles of partnership.

Liabilities of Partners

Every partner is jointly and severally liable for all acts of the firm. A suit for debts or contracts of the firm may be brought either against any partner, or against the firm itself.

A new partner is not liable for any act of the firm committed before his admission. But if he receives benefits from any old contracts after his joining the partnership, then he becomes liable for the same.

Any retiring partner continues to be liable for all debts and liabilities of the firm incurred while he was a partner. But his liability may cease by an express agreement entered into by him, with the third party and other partners. A retiring partner

may free himself from future liability by issuing proper notice of his retirement.

Anybody representing himself as a partner of a firm incurs thereby all the liabilities of a partner under the doctrine of *"holding out"*. Though not really a partner, a person is deemed to be so with all liabilities in the eye of law if he acts or represents himself in such a way as to give an air that he is a partner. This kind of partner is sometimes known as a *"quasi partner"*. In such a case it is immaterial whether he has any real interest in the business or not. He is very often called a *"nominal partner"*, where he has no real interest in the business. A *"dormant partner"* is he, who is not known to the outside world, but who possesses real interest in the business and shares in the profits of the latter. A *"sleeping partner"* is he who contributes capital to the business, but does not take any active part in its management.

The estate of an insolvent partner is not liable for any act of the firm, nor the firm is liable for any act of the insolvent partner committed after the adjudication order declaring the partner an insolvent.

The estate of a deceased partner cannot be made liable for any act of the firm done after his death.

Partners and Third Party

Though partners are guided by articles of partnership, outsiders who do not know anything of such articles are not bound by those articles. Any act of a partner within the scope of the business is binding upon other partners, unless the third party with whom the act has been done knows fully that the particular act is prohibited. Every partner is really an agent of the firm, and can bind the firm by any act, which is done for carrying on the business of the firm in the normal way. Such an act must be done in the firm's name, and in the bona-fide interest of the firm. Any act done by a partner and falling outside the scope of the partnership business does not bind the firm, unless it is ratified later by other partners. A partner is vested by statute with certain emergency powers which he

may be required to exercise for the preservation of the business or properties of the firm against loss as long as he acts like any other prudent and normal person.

A partner possesses an *implied authority* to do any act, which is generally ancillary to the normal business of the firm. This implied authority may be either extended or retarded by an agreement between the parties. The following acts do not come under the implied authority in the absence of any usage or custom of trade to the contrary, *e.g.*, the submitting of a dispute to an arbitration, the opening of an account in the bank in the name of a partner, admitting any liability against the firm, entering into partnership with someone on behalf of the firm, and so on.

Management of Partnership

Though every partner is entitled to participate in the management of the firm, it is competent for partners to agree that the management shall be exclusively done by one or a selected few.

A partner is not ordinarily entitled to any remuneration for acting for the partnership business. He may, however, claim some remuneration or compensation when he is obliged to carry on the partnership business in the absence of another partner whose duty is to do the same.

Dissolution of Partnership

The dissolution of a partnership firm may be effected in the following ways.

1. It may be automatically dissolved after the expiration of the period as agreed upon previously, or at any time with the consent of all the partners.

2. It is dissolved when the carrying on of partnership business becomes illegal, *e.g.*, if an alien is a partner, it becomes illegal on the outbreak of war between this country and the country of the alien.

3. A partner may dissolve the partnership firm on ground of misrepresentation or fraud.

4. In case of a partnership at will, it may be dissolved by issuing a notice by a partner intimating his intention of terminating the partnership.

5. It is dissolved if all or all but one of the partners are declared insolvent. But if only one of the partners is adjudged an insolvent, the firm is not dissolved if the articles of partnership provide to the contrary. But it may be dissolved, if one of the partners dies, or becomes an insolvent, unless articles of partnership provide for anything to the contrary.

6. Any partner may retire without dissolving the firm with the consent of all the other partners. If such consent is not available, he may retire by dissolving the firm.

7. The Court may dissolve a partnership on the following grounds on the initiative of any partner.

(*a*) Insanity of a partner

(*b*) The Court may dissolve a firm if it considers it equitable and just to do so on various relevant grounds.

(*c*) If a partner transfers all his shares, or if all his shares are either sold or attached by the Court.

(*d*) A partnership may be dissolved if the Court finds that the business cannot be carried on except at a loss.

(*e*) In case of breach of agreement

(*f*) If a partner becomes permanently incapable of performing his duties of the firm.

(*g*) In case of guilty conduct of a partner, the Court may dissolve a firm.

Payment of debts, division of assets amongst partners, and settlement of accounts amongst partners must be arranged on the dissolution of the firm.

Rights of Creditors After Dissolution

The assets of the firm including its property will be applied in paying the debts and liabilities of the firm. Assets will also include the goodwill of the firm. When there are joint debts due from the firm, and individual debts due from any individual partner, the property of the firm shall be applied first in

settlement of the debts of the firm, and if there be any surplus after so applying, it will be applied in paying individual debts. Similarly, individual property is applied first in paying individual debt, and if there be any surplus, it can be applied next in settling the debts of the firm. The partners continue to remain liable to third parties for acts of the firm even after dissolution, unless a public notice is issued to that effect. A partner's liability remains even after such a notice for acts of any other partner if such acts are necessary to settle or liquidate partnership affairs. Losses in partnership business are first met out of profits, next out of capital. Lastly, partners are obliged to contribute to losses in proportion to their shares in profits, as agreed upon amongst themselves.

Partner's Position After Dissolution

In addition to what is already mentioned, partners are entitled to claim the distribution of the remaining assets amongst themselves after meeting the debts and liabilities of the firm. The partners are then paid rateably their dues for advances ; next they are paid their dues on account of capital ; lastly, residue is divided amongst them in proportion to their shares in profits as agreed upon in the partnership articles.

A partner is entitled to the return of his "premium", if partnership is dissolved before the expiration of the period for which partnership is to last. Nothing is returnable if the dissolution is due chiefly or wholly to his misconduct or fault, or where dissolution takes place after an agreement, which does not provide for the return of premium. If the partnership is dissolved on the ground of fraud or misrepresentation, the aggrieved party is entitled to a return of his premium and his capital after meeting the partner's liabilities. He may also claim indemnification against payment made by him in respect of partnership liabilities.

Retirement of Partner

A partner may retire with the consent of all other partners, according to the articles of partnership, or by simply giving

notice to all other partners of his intention to retire where partnership at will exists. In case of the latter, his retirement does not necessarily mean the dissolution of partnership. A retiring partner is liable for existing liabilities, except where he is freed from those by an agreement, express or implied, amongst himself, third party and the other partners. No future liability attaches to a retiring partner, if a proper public notice of his retirement is given.

Registration

Though the Partnership Act does not provide for compulsory registration, a non-registered firm is subjected to certain disadvantages and disabilities. In case of non-registration, a firm cannot enforce its claim against any third party for recovering a sum exceeding rupees one hundred. Also a partner cannot sue for enforcing his rights unless the firm is registered. In all cases, however, a partner can always bring a suit for dissolution or accounts.

The fundamental principle of making provisions for registration of firms is to safeguard third parties against misrepresentation and fraud. The Registrar keeps a register of firms, where all up-to-date and necessary information and facts regarding firms are available, and registration provides that the firm so registered must render certain information to the Registrar. A firm may be registered by filing a statement to the Registrar, containing the name of the firm, its place of business and branches, dates when each partner joined the firm, names and addresses of all partners, and duration of the firm, along with a fee of rupees three only. Any change in the above, or pertaining to the firm should be notified to the Registrar for entry into the Register. Every body is entitled to inspect the Register or to receive any other information of the firm on payment of prescribed fees. Every notice regarding retirement, expulsion, dissolution, withdrawal by a minor, etc., must be given to the Registrar, and also published in the Official Gazette and in one vernacular newspaper.

Expulsion of a Partner

A partner cannot be expelled from a firm, unless such a contingency is expressly provided for in the articles of partnership. The liabilities of an expelled partner are similar to those of a retired partner.

Limited Partnership

Limited partnership is governed in England by the Partnership Act, 1890 and the Limited Partnerships Act, 1907. There is no limited partnership in India, as it is not allowed by law in this country. This form of partnership can be formed with a maximum of twenty, or ten persons only in case of banking business. It is known as limited partnership, when the liability of certain partners of the firm is limited to the amount of the capital, which they agree to contribute to the partnership business, but there must be at least one partner, whose liability must be unlimited.

The rights and liabilities of a limited partner are restricted. He cannot take part in the management of the firm. If he does so, then his liability will be like that of a general partner with unlimited liability for all transactions committed during the period of his management. He may, however, tender his advice upon the course of the business. He may inspect the books of the business. He cannot draw out or receive back any part of his capital contribution to the firm, though he may assign his share with the consent of the general (unlimited liability) partners. The lunacy, bankruptcy or death of a limited partner does not dissolve the partnership, though his lunacy may be a ground for dissolution when his share cannot be ascertained and assigned. The general partners wind up the affairs of a limited partnership in case of its dissolution, unless the Court issues orders to the contrary. Every limited partnership must be registered as such with the Registrar, or the partnership will be considered as a general one.

Criticism of Limited Partnership

Limited partnership is an attractive mechanism of inducing a capitalist to invest without undue risks, because the liability

of a limited partner is limited to the extent of the capital which he has agreed to contribute. He can share in the profits of the firm without incurring unlimited risks. Limited partnership stands in between a general partnership and the companies, specially private limited companies. Limited partnership can attract capital into industry without any formalities, which are generally required in case of companies. It tends to possess many of the advantages of the general partnership without some of its dangers. The death, bankruptcy or lunacy of a limited partner does not necessarily mean the dissolution of the firm. But the limited partner suffers from several disadvantages. He cannot take part in the management of the firm. His consent is not required for introducing any new partner in the firm. The firm does not at the same time suffer, because he cannot withdraw his capital, once it is invested. But the limited partnership has to give publicity and strict secrecy cannot be maintained as in a general partnership, because limited partnership must be registered. Anybody can inspect the books on payment of prescribed fees.

Limited Partnership as compared with Companies

In considering its disadvantages as compared with a general partnership, we find that a limited partnership is more akin to a private limited company. Though no legal formality is required for its formation and working as in case of a limited company, *e.g.*, filing with the Registrar documents like Articles of Association, Memorandum of Association, and obtaining Certificates of Incorporation and Commencement of Work, etc. the limited partnerships are less popular than private limited companies. Where additional capital is required, without increasing the membership of the firm to an undue extent, private companies are more popularly resorted to. Private companies can be formed with a minimum of two, and a maximum of fifty persons. Private companies have all the advantages of limited partnerships without some of their defects. Liability of members of a private company is limited to their share contributions. The members have some say in the management

of the concern, certain amount of publicity is assured, because annual audits and accounts must be done according to the Companies Act. The limited partnership may be dissolved under certain circumstances as mentioned before, but a private company is given a more permanent tenure, because it comes into existence by statute, and it can be similarly ended only by statute.

Questions

1. You contemplate starting a business firm in partnership with others and are anxious to get a partnership deed prepared. On what points would you come to conclusions with a view to incorporate the same in the said agreement so as to avoid disputes and litigations? (B. Com. Cal., 1925).
2. Discuss fully the rights and obligations of partners in a partnership business. (B. Com. Cal., 1927).
3. What is a Limited Partnership? Compare its advantages with those of the Private Limited Company. (B. Com. Cal., 1931).
4. Specify with reasons the principal clauses which should be included in a properly framed partnership agreement. (B. Com. Cal., 1927).
5. What safeguards can be adopted to make the working of a partnership smooth? (B. Com. Bombay, 1929).
6. Differentiate clearly between the Joint Hindu Family Organisation and the Partnership Organisation. (B. Com. Lucknow, 1924).
7. What is a limited partnership and where does it differ from ordinary partnership? How are the partnership assets applied in the event of dissolution of partnership? (B. Com. Cal., 1933).
8. In organisation of a large concern the responsibility is in some cases "collective" and in others "individual". Discuss the merits and drawbacks of each. (B. Com. Allahabad, 1926).
9. What is the position of a partner relative to his co-partners and what is his position relative to the creditors of his firm? (B. Com. Bombay, 1929).

CHAPTER III

COMPANIES

Evolution of Companies

As we have already pointed out the first possible economic unit was the sole proprietorship, then came the partnership, and later the companies and these companies are now the popular units of modern business organisation. The evolution of the economic life through these three processes registers the gradual improvement and progress which have been effected in the business world.

In India companies are now regulated and governed by the Indian Companies Act VII of 1913 as amended up to date. The company legislation in this country was undertaken as early as 1850, and from that time onwards it followed closely the English Companies Acts throughout its evolution up to the present stage.

Definition of Companies

A company denotes an association of persons for the purpose of making profits. It is given a legal entity either by legislation, or by Royal prerogative. It possesses a legal personality as distinct from individuals, who compose it. It can possess property, incur debts, sue and be sued. The law usually tends to give it a perpetual succession, and it possesses a common seal. "By a company is meant an association of many persons who contribute money or money's worth to a common stock and employ it for a common purpose."

Definition of Joint-stock Companies

Generally, a Joint-stock company is so called, because the stock or capital is jointly contributed to by several persons, who associate together in order to make profits. "A Joint-Stock Company consists of a body of persons united for certain definite purposes under royal or legislative sanction, in such

manner that they form a Corporate body, *i.e.*, "an entity recognised in law as a distinct legal personality capable of holding property in its own right, of incurring obligations, and of suing and being sued in its own name." In popular parlance we generally mean by a company, a joint-stock company limited. It means a company, whose capital is divided into a number of shares, and the liability of each shareholder is limited only to the face value of his share. It is also registered under the Indian Companies Act, which defines a joint-stock company in the following way. It means a company "having a permanent paid up or nominal share capital of fixed amount divided into shares, also of fixed amount, or held partly in one way and partly in the other, and found on the principle of having for its members the holder of those shares or that stock, and no other persons, and such a company, when registered with limited liability under this Act shall be deemed to be a company limited by shares."

Types of Companies

A limited company denotes a company, in which the liability of every member is limited to the face value of his share. A limited company is generally *registered* under the Indian Companies Act, according to the provisions of the latter. A limited company may be incorporated by a special Act of the legislature, and then it is known as a *statutory company*. It is generally adopted in case of railway, gas, tramway, electric and water supply companies. It is usually resorted to in cases like the above where the companies require special powers to function, *e.g.*, to acquire private properties, to use public places, to be assured of a monopoly, etc.

There are two kinds of companies recognised by law, namely, *public* and *private*. A *private company* is well defined by the Indian Companies Act. Its minimum number is two, and maximum is fifty. The law imposes several restrictions upon a private company in exchange of the many advantages which it enjoys. It cannot invite the public to subscribe to its share capital or debenture. Restrictions are placed upon the

transfer of its shares. A private company need not disclose its financial position to the public. It is not required to issue any prospectus, nor any statement in lieu of a prospectus. It has no restriction for first allotment of shares. It does not require a commencement certificate to start business. It is not required to file with the Registrar of Joint-stock Companies the report of the annual statutory meeting, the annual balance sheet, nor to hold the annual statutory meeting. No compulsory audit of its accounts is insisted upon. It need not circulate amongst its members the annual balance sheets, reports, accounts, etc. But when a private company is subsidiary to a public company, then it is invested with certain restrictions regarding the rotation and number of directors, granting of loans, terms of appointment of managing agents, their remuneration and powers, etc.

A *public company* refers to a company other than a private one. It is subjected to several restrictions by law as compared to a private company. The minimum number of persons required to form a public company is seven. It issues its shares for public subscription, and its shares are transferable more easily. A public company may be of three types. (1) It is known as a *company limited by shares*, when its capital is divided into a number of shares, and the liability of each shareholder is limited only to the face value of his share. If the full amount of share value is paid, the liability of a shareholder ceases. But if any portion of the value of the share is not paid, the shareholder may be requisitioned to contribute to that part, when required. Generally, it is the practice of companies to keep a certain portion of the share value unpaid, and this unpaid amount is the reserved liability, which may be called up. It, therefore, tends to serve the purpose of a reserve fund, and commands great confidence and high credit. This sort of reserve liability is very often found to be of great help in cases of banks and insurance companies, which depend upon popular faith and confidence for their success. (2) An *unlimited liability company* is one, whose shareholder is liable for the debt of the company to an unlimited extent as in a partnership. But

a member's liability ends after one year of his ceasing to be a member. The shares are transferable. This type is rarely found in practice. (3) A *company limited by guarantee* refers to a company where its members undertake to contribute to a certain guaranteed sum of money for the debts of the company, and this liability continues for one year even after his ceasing to be a member. It may possess a fixed capital, which is divided into shares, representing the units of guarantee. There may also be no fixed capital of such a company. This kind of company is also very *uncommon.*

Conversion of a Private Company into a Public One

A private company can be converted into a public company by altering its articles of association by a special resolution regarding the transfer of shares and offering shares to the public. It must file with the Registrar of Joint-Stock Companies the prospectus or a statement in lieu thereof within 14 days.

In the following discussion, companies will mean public limited companies.

Meaning of the word "Limited"

The meaning of the word "Limited" is that the liability of the members of a company is limited to a specified sum of money. Every registered limited company must always use the word "Limited" or "Ltd." after its name, except in the following cases. If the Local Government is satisfied that an association of people is willing to form a limited company with the object of promoting commerce, art, science, religion, charity, or any other useful object, of spending all profits, if any, for its aims, and prohibits distributing any dividends to its members, the Local Government may permit such an association to be registered under the Indian Companies Act as a limited company under a licence with the advantage of not using the word "Limited" after its name. In all other respects, the company is regulated by the Companies Act. Such a licence is usually given under certain rules and regula-

tions, which are binding upon the company, and the licence may be revoked at any time, depriving the company of enjoying the aforesaid privilege.

Some foreign companies are incorporated in this country and styled as . . . . . (India) Ltd., *e.g.*, Bata Shoe (India) Ltd., The Dunlop Rubber Company (India) Ltd., The Imperial Chemical Industries (India) Ltd., etc. They are so registered in India under the Indian Companies Act in order to acquire the colour that they are Indian companies. Such companies are commonly found in case of industries, where the Government follows a policy of protection for the indigenous industry. Being incorporated in this country, they are also entrenched under the protection schemes of the Government of India. They are also being established in those spheres, where raw materials are comparatively cheap, labour costs small, and transportation charges low. They also tend to thrive by being passed as Indian industries and favoured by the nationalistic psychology of the Indian people. Really speaking, this is a veiled method of exploiting India, and thwarting the protectionist objects of India Government. They are virtually foreign companies to all intents and purposes. They are controlled and owned by foreigners, because their shares are mostly sold abroad. That they have some Indian directors is merely an eye-wash. Profits of these concerns go mostly outside India. Hence steps should be taken by both the Government and the people to stop the growth of such companies to the detriment of India's interests.

Formation of a Company

Any private company may be incorporated under the Indian Companies Act by at least two persons, who comply with all the provisions of the above Act. It can start functioning immediately after its incorporation.

Any seven or more persons may form a public company, by properly and regularly complying with all the provisions of the Indian Companies Act. The following steps are to be taken for the formation of such a company.

A Memorandum of Association of the proposed company and its Articles of Association, if any (otherwise the standard

articles under Table A of the Companies Act will apply) must be drafted according to the above Act. These must be duly signed by at least seven members, who have each subscribed to at least one share of the company, and duly filed with the Registrar of the Joint-stock Companies along with the other following documents. A list of Directors must be submitted. The Directors mentioned in the Memorandum must indicate in writing their intention to act as such. The address of the Registered Office of the company must also be filed. Declaration of the Directors to take up their qualification shares must be submitted. A declaration from an advocate or by any person named in the Articles as a Director, Manager, or Secretary of the Company that all provisions of the Companies Act have been duly complied with, must also be filed. The application in the prescribed form of the subscribers desirous of forming the company is attached at the end of the Memorandum. After duly stamping each document, they are all filed with the Registrar along with prescribed fees under Table B. Then the Registrar certifies under his hand and seal that the company is incorporated or registered. After obtaining the certificate of incorporation, the company issues its prospectus with an application form for shares attached to each, inviting the public to subscribe to its share capital. When share subscription reaches the minimum required for proceeding to allotment of shares, the company may proceed to allotment of its shares under the provisions of the Companies Act. A declaration is to be filed then with the Registrar by the Secretary or a Director of the company, stating that the minimum number of shares have been subscribed, and that the directors have paid for their qualifying shares. After this, the Registrar issues the *Commencement Certificate*, which entitles the company to start business.

DECLARATION BEFORE COMMENCING BUSINESS

Filing Fee Rs. 3

Declaration made on behalf of.................................that the conditions of section 103 of the Act have been complied with.

Present for filing by......................I.....................of .... being .... of the .... do solemnly and sincerely declare :—

That the amount of the share capital of the Company offered to the public for subscription is Rs................

That the amount fixed by the memorandum and/or articles and named in the prospectus as the minimum subscription upon which the Company may proceed to allotment is Rs...........

The shares held subject to the paying of the whole amount thereof in cash have been allotted to the amount of Rs............

That every director of the Company has paid to the Company on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription.

I declare that the foregoing are true to my knowledge and belief.

Signature.......................

Date.

CERTIFICATE OF INCORPORATION

I hereby certify that The............................Company, Limited is this day incorporated under the Indian Companies Act, and that the Company is Limited.

Given under my hand at Calcutta, this first day of February, One thousand nine hundred and fortyone.

Fees and Deed Stamps......................Rs............
Stamp Duty of Capital......................Rs............

Registrar of Joint-Stock Companies.

CERTIFICATE FOR COMMENCEMENT OF BUSINESS

After incorporation, a declaration in the prescribed form is made by a director, or by any authorised agent of the company, and filed with the Registrar of Joint-Stock Companies, stating that shares have been allotted to an amount not less than the

minimum subscription prescribed, and the directors have duly paid for their shares. Then the Registrar issues the commencement certificate, which entitles a public company to commence business, and exercise its borrowing powers. A public company cannot start business before getting this certificate.

CERTIFICATE FOR COMMENCEMENT OF BUSINESS

That

Company is entitled to commence business

I hereby certify that The..............................Company, Limited of......................Street, Calcutta, which was incorporated under the Indian Companies' Act on the 5th day of July, 1940, and which has this day filed a statutory declaration in the prescribed form that the conditions of section 103 have been complied with, is entitled to commence business.

Given under my hand at Calcutta this 14th day of June, One thousand nine hundred and fortyone.

Registrar of Joint-Stock Companies.

FORM OF THE DECLARATION OF COMPLIANCE

The declaration of compliance is given in the following form :—

The Indian Companies Act, 1913

DECLARATION OF COMPLIANCE

With the

Requisitions of the Indian Companies Act, 1913 made pursuant to Section 84, Sub-section 2, on behalf of a company proposed to be

registered as

THE..CO., LTD.

I, ... of .... do solemnly declare that I am the Secretary named in the Articles of

Association of the............................Company, Limited, and that all the requirements of the Indian Companies Act, 1913, in respect of matters precedent to registration of the said company and incidental thereto have been complied with. And I make this solemn declaration conscientiously believing the same to be true.

Declared at my office, High Court
................, the 1st day of April,
one thousand nine hundred and
forty-five.

Signature

Before me

Commissioner of Oaths.

FORM OF THE LIST OF DIRECTORS

The list of persons who have consented to be directors as required to be filed with the Registrar per Section 84 (2) of the Indian Companies Act, 1913, is given in the form below :—

The Indian Companies Act, 1913
Section 84 (2)

List of the persons who have consented to be Directors
of

THE..CO., LTD.

To

The Registrar of Joint-Stock Companies,

I, ..., the undersigned, hereby give you notice, pursuant to Section 84 (2) of the Indian Companies Act, 1913, that the following persons have consented to be Directors of the...Company, Limited.

Name	Address	Description
1. Mr..............................	....	....
2. Mr..............................	....	....
3. Mr..............................	....	....

Signature, address and description of applicant for registration.

1. Mr..............................
Address..............................

Dated..............................

Form of consent of Directors

The consent of the directors to act as such as required by Section 84 (1) of the Indian Companies Act, 1913, is given in the following form:—

The Indian Companies Act, 1913

Section 84 (1)

Consent to act as Directors

of

The..............................Company, Ltd.

To

The Registrar of Joint-Stock Companies,

We, the undersigned, hereby testify our consent to act as Directors of the..............................Company, Limited, pursuant to Section 84, Sub-section 1, of the Indian Companies Act, 1913.

Signature	Address	Description
1. Mr..............................	....	....
2. Mr..............................	....	....
3. Mr..............................	....	....

Dated.

Company Promoter

A promoter is he, who takes the initiative of starting a company. He visualises the future and plans accordingly. He hunts for industrial opportunities and possibilities. Immediately he can foresee the chances of industrial or commercial prospects in any line, he starts acting. He generally brings into existence a company, and opens out the opportunities for profitable investment. He specialises in this line.

In the initial stage, a promoter pays all the preliminary expenses of the company, and gets the company duly incorporated after drawing up the relevant Memorandum of Association and other documents. After the incorporation of the company, he throws open its shares for public subscription. If he fails to interest the public in his venture, he stands to lose even his preliminary expenses, which are already incurred. A promoter may himself supply a large part of the capital of the company, and remains closely associated with its management. A promoter may be a very able business and technical man ; he may not possess capital, but he can obtain capital from the public by selling shares and then manage the company.

A promoter stands in a fiduciary relationship with his company.

The function of a promoter is fundamentally important for the growth of companies, especially, in our country. He is the intermediary, who can draw out savings of the public in order to pass those to be utilised in industrial and commercial pursuits. Unfortunately, there are sometimes unscrupulous promoters, who start companies haphazardly, without any special knowledge and aptitude. These companies do not thrive, and destroy public confidence. In our country, the managing agents mostly do the function of a promoter, and good managing agents have enormously succeeded in this way.

Underwriting Commission

It means the commission paid to underwriters, who enter into a contract with the company or its promoters, guaranteeing

that the share capital of the company, as offered to the public, would be fully taken up by the public and that in case any balance remains unsubscribed for, the same is to be taken up and paid for by them. In consideration of this underwriting, a certain commission is agreed to be paid to the underwriters, which is calculated on the whole capital of the company, whether taken up by the public or not.

Memorandum of Association

The Memorandum of Association of a company is its most fundamental document. It is the charter of the company, defining its powers and objects. The company cannot legally do anything beyond the terms of the memorandum.

The Indian Companies Act lays down that the memorandum of a company limited by shares should contain the following. (1) The *name of the company* must be mentioned. Any name may be used if it does not resemble that of an existing firm. Words like Crown, Emperor, Empire, Reserve Bank, etc., cannot be used except with the previous sanction of the Governor General in Council. The last word of a limited company must be "Limited" or "Ltd." except in a few cases as mentioned already. The name of a company can be altered by a special resolution of the company, subject to the sanction of the Government. (2) The *address of the registered office* of the company must be stated, and the *name of the Province* in which such an office is situated must also be mentioned. (3) The objects of the company must be stated. The general practice is to make the "objects clause" so comprehensive as to include every conceivable act, because alteration of this clause is difficult. The "objects clause" helps to enlighten the shareholders, and outsiders as to the objects of any company. (4) It should clearly state whether the liability is limited by share or by guarantee. In case only the words "liability is limited" are used, they will mean that it is limited by share. (5) The capital clause must state the number of shares in which the authorised capital has been divided into.

The memorandum shall be printed, paragraphed, numbered consecutively, and shall be signed by each original subscriber in the presence of at least one witness, who will attest his signature.

The memorandum generally contains an association clause as its end. It usually reads thus: "We, several persons whose names and addresses are subscribed, are desirous of being formed into a company, in pursuance of the Memorandum of Association, and respectively agree to take the number of shares in the capital of the company, set opposite our respective names."

Alteration of Memorandum

The clauses of the memorandum of association may be altered under various circumstances of which the following merit special attention.

Name. The name of the company can be altered by a special resolution and subject to the approval of the local Government signified in writing. Such a change of name shall not affect any rights or obligations of the company or render defective any legal proceedings by or against the company. It may also be added here that the section prohibits the use of the words "Crown", "Emperor", "Empire", "Empress", "Imperial", "King", "Queen", "Royal" or words expressing or implying the sanction or approval or patronage of the Crown or Government without the sanction in writing of the Governor-General in Council.

Objects and Situation

The alteration of the objects clause or changing of the registered office of the company can be made by a special resolution of the company, with the leave and sanction of the Court on the following grounds:—(*a*) To achieve its main object by new means, (*b*) to change or extend its local area of transaction, (*c*) to conduct its work more economically and efficiently, (*d*) to give up or restrict any objects mentioned in the memorandum, (*e*) to dispose of, or sell any part or whole of the company, (*f*) to amalgamate with any other company, or associa-

tion of persons, (*g*) to transact some new business, which can be profitably combined with its existing one.

The Court may refuse sanction, or confirm its sanction under certain restrictions.

Capital

In regard to capital a company, if so authorised by its articles, may alter the conditions of its memorandum in the following way without the consent of the court:—(i) increase its share capital by the issue of new shares of such amount as it thinks expedient; (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; (iii) convert all or any of its paid-up shares into stock and re-convert that stock into paid-up shares of any denomination; (iv) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum, so, however, that in the sub-division the proportion between the amounts paid and the amount, if any, unpaid on each reduced share, shall be the same as it was in the case of the share from which the reduced share is derived; (v) cancel shares, which at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled. The powers with regard to sub-division of shares must be exercised by special resolution.

If the conditions in the memorandum are to be modified with a view to reorganise the share capital, the following rules hold good:—

(*a*) A company may, by special resolution confirmed by an order of the Court, modify the conditions contained in its memorandum so as to reorganise its share capital, whether by the consolidation of shares of different classes or by the division of its shares into shares of different classes.

"Provided that no preference or special privilege attached to or belonging to any class of shares shall be interfered with except by a resolution passed by a majority in number of shareholders of that class holding three-fourths of the share

capital of that class and confirmed at a meeting of shareholders of that class in the same manner as a special resolution of the company is required to be confirmed, and every resolution so passed shall bind all the shareholders of the class."

The following rules with regard to the reduction of capital are to be observed:—Subject to confirmation by the court, a company limited by shares, if so authorised by its articles, may by special resolution reduce its share capital in any way and in particular may—(*a*) extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or (*b*) either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or (*c*) either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the requirements of the company, and may, if and so far as necessary, alter its memorandum by reducing the amount of its share capital and of its shares accordingly.

Duties of Subscribers to Memorandum

Those who subscribe to the memorandum have the following duties, namely to pay for their shares, to sign the articles of association, if any, to appoint the first directors, to act as first directors until the appointment of other directors, unless otherwise provided in the articles of association.

THE THIRD SCHEDULE

FORM A.

(Section 6 and 15 of the Indian Companies Act)

MEMORANDUM OF ASSOCIATION OF A COMPANY

LIMITED BY SHARES

1st.—The name of the company is "The Western Steam Pocket Company, Limited."

2nd.—The registered office of the company will be situated in the province of Bengal.

3rd.—The objects for which the company is established are "the conveyance of passengers and goods in ships or boats between such places as the company may from time to time determine, and the doing of all such other things as are incidental or conducive to the attainment of the above object."

4th.—The liability of the members is limited.

5th.—The share capital of the company is one lakh of rupees, divided into two thousand shares of 50 rupees each.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company in pursuance of this memorandum of association, and we respectively agree to take the number of shares in the capital of the company set opposite our respective names:—

	Names, addresses and descriptions of subscribers.		Number of shares taken by each subscriber.
1.	A. B.	merchant	200
2.	C. D.	,,	25
3.	E. F.	,,	30
4.	G. H.	,,	40
5.	I. J.	,,	15
6.	K. L.	,,	5
7.	M. N.	,,	10
	Total shares taken.		325

Dated the day of 19 .

Witness to the above signatures, X. Y. Z. of

s of Association

Articles of Association of a company lay down the rules and regulations for the internal management, administration and organisation of the company. They define the powers and duties of directors or other officers of the company, and regulate

the relations of the company and the members as between themselves. Articles of Association must be framed within the terms of the memorandum and provisions of the Companies Act.

Limited companies may register their own Articles of Association before incorporation, but if they do not, then the Articles of Association as set forth in Table A of the first schedule of the Indian Companies Act will be deemed to apply automatically. If the articles of a company are silent on some points, then provisions of Table A will apply therein. Certain regulations of Table A, *e.g.* deciding questions at general meetings, rotation of directors, declaration of dividends, form of profit and loss account, etc. will compulsorily apply in case of all companies. Unlimited companies and companies limited by guarantee must register their articles of association before incorporation. Articles of Association of a company must have one "Association clause" and be signed with addresses of all subscribers to the memorandum before at least one witness, who will attest his signature.

Articles of Association can be altered by a special resolution of the company without requiring any sanction of Court, provided they do not contravene the provisions of the memorandum and the Companies Act. They usually govern the division of capital, issue of shares, transfer of shares, etc.

Memorandum and Articles Compared

The Memorandum is the fundamental charter of the company defining its objects and powers. Articles are the rules and regulations of the company for its internal management, and cannot go beyond the terms of the Memorandum. Alterations of the articles can be made by a special resolution of the company, while the Memorandum can be altered only by a special resolution of the company, subject to the sanction of the Court according to provisions of the Companies Act. Memorandum must be registered for the incorporation of a company, but articles may or may not be registered as already explained.

ARTICLES OF ASSOCIATION

Number of Members

1. The company for the purpose of registration is declared to consist of five hundred members.

2. The directors hereinafter mentioned may, whenever the business or the association requires it, register an increase of members.

Definition of Members

3. Every person shall be deemed to have agreed to become a member of the company in pursuance of the regulations hereinafter contained.

General Meetings

4. The first general meeting shall be held at such time, not being less than one nor more than three months after the incorporation of the company, and at such place, as the directors may determine.

5. A general meeting shall be held once in every year at such time (not being more than fifteen months after the holding of the last preceding general meeting) and at such place as may be prescribed by the company in general meeting, or in default, at such time in the month following that in which the anniversary of the company's incorporation occurs, and at such place, as the directors shall appoint. In default of a general meeting being so held, a general meeting shall be held in the month next following, and may be called by any two members in the same manner as nearly as possible as that in which meetings are to be called by the directors.

6. The above mentioned general meetings shall be called ordinary meetings; all other general meetings shall be called extraordinary.

7. The directors may, whenever they think fit, and shall, on a requisition made in writing by any five or more members, call an extraordinary general meeting.

8. Any requisition made by the members must state the object of the meeting proposed to be called, and must be signed by the requisitionists and deposited at the registered office of the company.

9. On receipt of the requisition the directors shall forthwith proceed to call a general meeting ; if they do not proceed to cause a meeting to be held within twenty-one days from the date of the requisition being so deposited, the requisitionists or any other five members may themselves call a meeting.

PROCEEDINGS AT GENERAL MEETINGS

10. Fourteen days' notice at the least, specifying the place, the day and the hour of meeting, and in case of special business the general nature of the business, shall be given to the members in manner hereinafter mentioned, or in such other manner (if any) as may be prescribed by the company in general meeting ; but the non-receipt of such a notice by any member shall not invalidate the proceedings at any general meeting.

11. All business shall be deemed special that is transacted at an extraordinary meeting, and all that is transacted at an ordinary meeting, with the exception of the consideration of the accounts, balance-sheets and the ordinary report of the directors and auditors, the election of directors and other officers in the place of those retiring by rotation, and the fixing of remuneration of the auditors.

12. No business shall be transacted at any meeting except declaration of a dividend, unless a quorum of members is present at the commencement of the business. The quorum shall be ascertained as follows (that is to say) : if the members of the company at the time of the meeting do not exceed ten in number, the quorum shall be five ; if they exceed ten, there shall be added to the above quorum one for every five additional members with this limitation, that no quorum shall in any case exceed ten.

13. If within one hour from the time appointed for the meeting a quorum of members is not present, the meeting, if called on the requisition of the members, shall be dissolved ;

in any other case it shall stand adjourned to the same day in the following week at the same time and place ; and if at such adjourned meeting a quorum of members is not present, the members present shall form the quorum.

14. The chairman (if any) of the directors shall preside as chairman at every general meeting of the company.

15. If there is no such chairman, or if at any meeting, he is not present at the time of holding the same, the members present shall choose some one from among themselves to be chairman of that meeting.

16. The chairman may, with the consent of the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

17. At any general meeting, unless a poll is demanded by at least five members or as provided in the Act, a declaration by the chairman that a resolution has been carried, and an entry to that effect in the book of proceedings of the company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against the resolution.

18. If a poll is demanded in manner aforesaid, the same shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

Votes of Members

19. Every member shall have one vote and no more.

20. If any member is a lunatic or an idiot, he may vote by his nominee or other legal guardian.

21. No member shall be entitled to vote at any meeting unless all moneys due from him to the company have been paid.

22. On a poll votes may be given either personally or by proxy, provided that no company shall vote by proxy as long as a resolution of its directors in accordance with the provisions of section 80 of the Indian Companies Act, 1913, is in force.

A proxy shall be appointed in writing under the hand of the appointer, or, if such appointer is a corporation, under its common seal.

23. (1) No person shall act as a proxy unless he is a member, or unless he is appointed to act at the meeting as proxy for a corporation.

(2) The instrument appointing him shall be deposited at the registered office of the company not less than seventy-two hours before the time of holding the meeting at which he proposes to vote.

24. Any instrument appointing a proxy shall be in the following form:—

Company, Limited,

I, , of , being a Member of the Company, Limited, hereby appoint of as my proxy, to vote for me and on my behalf at the (ordinary or extraordinary, as the case may be) general meeting of the company to be held on day of and at any adjournment thereof.

Signed this day of

DIRECTORS

25. The number of the directors and the names of the first directors shall be determined by the subscribers of the memorandum of association.

26. Until directors are appointed, the subscribers of the memorandum of association shall, for all the purposes of the Indian Companies Act, 1913, be deemed to be directors.

POWERS OF DIRECTORS

27. The business of the company shall be managed by the directors, who may exercise all such powers of the company as are not by the Indian Companies Act, 1913, or by any

statutory modification thereof for the time being in force, or by these articles required to be exercised by the company in general meeting; but no regulation made by the company in general meeting shall invalidate any prior act of the directors which would have been valid if that regulation had not been made.

Election of Directors

28. The directors shall be elected by the company in general meeting as provided in the Act.

Business of Company

(Here insert rules as to mode in which business of insurance is to be conducted).

Audit

29. Auditors shall be appointed and their duties regulated in accordance with sections 144 and 145 of the Indian Companies Act, 1913, or any statutory modification thereof for the time being in force, and for this purpose the said sections shall have effect as if the word "members" were substituted for "shareholders", and as if "first general meeting" were substituted for "statutory meeting".

30. A notice may be given by the company to any member either personally, or sending it by post to his registered address.

31. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice and, unless the contrary is proved, to have been effected at the time at which the letter would be delivered in the ordinary course of post.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company in pursuance of these Articles of Association, and respectively agree to take the number of shares in the capital of the company set opposite our respective names.

Names, Addresses and Descriptions of Subscribers.

"1. A. B. of

"2. C. D. of

"3. E. F. of

"4. G. H. of

"5. I. J. of

"6. K. L. of

"7. M. N. of

Dated the day of 19

Witness to the above signatures.

X. Y. Z., of

Capital of a Company

A company generally obtains its capital by means of shares. The money, which a company can secure by means of debentures if its articles so permit, mortgaging its assets, or by securing overdrafts or similar such financial accommodation from banks is really its loan, and not capital.

The capital which a company is authorised by its memorandum to raise from the public by means of shares is called its *authorised* or *nominal* capital, or even *registered capital*.

Generally, a company issues only a part of its authorised capital to the public for subscription by means of shares, and this is called its *issued capital.* That portion of the issued capital is known as its *subscribed capital,* which is subscribed by the public or vendor, if any. It is usually the practice of a company not to demand at one call the entire face value of the share capital, which is subscribed. The directors call up the capital in instalments according to what is laid down in the prospectus. *Called-up capital* refers to that part of the face value of the shares, which is called up by the directors to be paid. That portion of the called up capital, which has been actually paid by shareholders is known as the *paid-up capital.* The uncalled portion of the subscribed capital is a contingent liability of the shareholders. When a company passes a special resolution, stating that the company will not be able to call in the uncalled capital except in case of winding up the company, it is known

as the *reserve* capital of the company. It is a *reserve liability* of the shareholders. This sort of reserve liability stamps a company with high credit and great confidence. *Calls in arrears* or *calls unpaid* refer to that portion of the capital, which has been called up, but is not yet paid. A company may charge interest upon such arrears, if its articles so provide for. If any capital is paid by shareholders in advance in anticipation of a call, it becomes *calls in advance*. If its articles permit, a company may accept such calls in advance, and may even pay interest upon them, if its articles so provide for.

How much capital a company should possess will depend upon its own needs. A company should prudently decide how much capital it will require. Both *over-capitalisation* and *under-capitalisation* are bad. When a company possesses more capital than what it can profitably utilise, it leads to reduction of dividends on shares, and destruction of public confidence thereby. In case of under-capitalisation, a company cannot progress ; it cannot expand according to its expectations ; it cannot meet its creditors in time. The company thereby tends to lose its credit and incurs loss.

Watered Capital

Sometimes, a company buys a business by paying for its goodwill a price higher than what is justified by its actual worth. In such a case the capital of the company is said to be "watered" or inflated. The purchase price is shown amongst "intangible" assets of the company. Another example is found, where a company issues free of charge, bonus shares to its shareholders, one bonus share for one or more of its shares, as the case may be. In such a case the share capital is increased without receiving any actual capital in exchange of those shares. This results in reduction of dividends and premiums on shares.

Terms of Issue of Share Capital

The terms and conditions under which the shares of a company are issued are generally mentioned in its articles of

association. When shares are issued at a price less than their face value, shares are said to be sold at a discount ; if the price is equal to their nominal value, they are said to be at par ; when it is greater than their nominal value, shares are at a premium. The company law does not prevent any of the above three selling prices, except that shares can be sold at a discount under only the following conditions, namely, (*a*) a company which so sells must be at least of one year's standing, (*b*) the issue of such shares with the rate of discount must be decided in a general meeting of the company and must be sanctioned by the Court, (*c*) the discount rate cannot exceed 10%, and (*d*) the issue must be made within six months of the Court's sanction.

Share

The capital of a limited liability company is subscribed by individuals in equal units, which are the multiples of the company's capital, and each such unit is known as the share of the company. The shareholders are the owners of a company, and the holding of a share determines rights and obligations of a shareholder *vis-a-vis* the company and its creditors. "A share is a right to receive a certain proportion of the profits, and of the capital of a company when it is wound up." These shares are moveable property and are transferable according to the articles of association of a company.

Kinds of Shares

Shares may be of different kinds, amongst which the following are important.

Ordinary shares participate in profits of a company after all preferential rights have been satisfied. Deferred interests, if there be any in a company, are met after ordinary shares have been given a certain percentage of profits.

Preference shares participate in stated profits of a company in preference to any other interests, and, generally, they are *cumulative*, that is to say, if their apportioned rates of profits are not given in any year, the unpaid balance remains credited to the accounts of preference shareholders to be paid any time

before any other interests can be satisfied. Ordinary preference shares cannot claim to be so paid. When *preference* shares participate like ordinary shares in profits of a company in addition to their stated profits, they are known as *participating preference shares.* When preference shares are redeemable out of profits through the creation of the "capital redemption reserve fund", or by new issue of shares, or out of sale proceeds of the property of the company, they are called *redeemable preference shares.* Be it noted here that such shares are not redeemable unless fully paid up.

Ordinary shares may be further divided into *preferred ordinary* and *deferred ordinary shares.* The former are entitled to a fixed percentage of profits before any part of profits can be distributed to deferred shareholders.

Deferred Shares refer to those whose holders are entitled to the whole or part of the residual dividends or profits of a company after all other classes of shareholders have received certain rates of dividend. They are generally issued to the promoters, underwriters or founders of the company and carry low nominal value. In such cases, they are known as promoters', Founders', or Management shares. They confer exceptional voting rights upon their holders. These shares may not get much of dividends during the early stage of a company, but later they usually earn very high rates of dividend, and they may also be utilised to exercise greater control over the company by paying a comparatively small amount of capital money.

Share Certificate

A company issues to its every shareholder a certificate stating the number and class of the share, the amount paid on it, and the name of the holder. It is signed by the authorised agent of the company. Generally, the share certificates must be complete and ready for delivery within three months of the allotment of those shares, or of the register of their transfers. A share certificate is not a negotiable instrument, and is transferable by endorsement and delivery. A script or a script

certificate is a provisional share certificate, and temporarily issued in lieu of the share certificate.

Share Warrant

A share warrant denotes an instrument issued by a company limited by shares provided its articles permit, regarding any fully paid-up share, stating that the bearer of the warrant is entitled to the shares mentioned therein. Generally, *Dividend Coupons* are attached to a share warrant, and one is entitled to receive dividends on the shares mentioned in the warrant on the production of the coupons on due dates. Particulars of a share warrant must be kept in a Register of Members. The name of any holder of a warrant may be registered in a Register of Members on surrendering the warrant for cancellation, though he may be regarded as a member even without such a surrender, provided the articles of association so permit.

Stamp SHARE WARRANT

The...Company, Limited. Capital Rs..............divided into..............shares of.............. Rs..............each. No..............

This is to certify that the Bearer of this Warrant is the proprietor of..............shares of Rs..............each fully paid, numbered from..............to..............inclusive in the........... ....Company, Limited, subject to the Articles of Association of the Company.

Seal.

Given under the common Seal of the Company.

This..................day of......................., 1937.

....Director.

....Director.

....Secretary.

Registered Office

SHARE CERTIFICATE

The..................................Company, Limited.

Certificate No.................

Capital Rs......................

Number of Shares...........

This is to certify that......................of......................
is the registered proprietor of................fully paid up shares
of Rs....................each Nos....................to.......................
inclusive in the..............................Co., Ltd., subject to the
Articles of Association of the Company.

Given under the Common Seal of the Company.

This..................................

....Directors

Seal.

....Secretary.

No transfer of any of the above mentioned shares can be registered without production of this certificate.

Members or Shareholders of a Company

Anybody who holds a share in a company becomes its proprietor or member, and in the case of a company limited by guarantee, one who agrees to guarantee to contribute to the assets of a company upon its liquidation becomes its member. In a company limited by shares, one may become a member by (*a*) subscribing to the memorandum, (*b*) agreeing to buy shares and being placed on the Register of members, (*c*) one may become a member by obtaining shares transferred to him, and recognised as such by the company, (*d*) heirs and legal representatives of a deceased member become its members after having registered their names in the Register of Members. A limited company can become a member of another limited company, if articles and memorandum of the former so allow. Every member must keep a *Register of Members*, stating the names, addresses, etc., of the members. A company may not close its Register for more than 45 days in a year, or not more

than 30 days at a stretch by giving 7 days' notice in the newspaper.

How to cease to be a Member

One may cease to be a member by (*a*) transferring his share to another, (*b*) forfeiture of his share owing to non-payment of call money, (*c*) death, (*d*) surrender of shares, and (*e*) rescision of the contract to buy shares on ground of fraud.

Forfeiture of Shares

A company has no right of forfeiting a share which is already allotted according to the *Statute*. In practice, however, almost every company acquires the right of forfeiting a share, according to Rule 24 of Table A, or by provisions in its articles, if the shareholder fails to pay the calls, which become due within the stated period. Usually, fourteen days' notice of such forfeiture must be given to the member before forfeiture, and if payment is withheld even during this period, the share can be forfeited by the company through a resolution of the Board of Directors according to Rule 24 of Table A or provisions of the articles. All money paid on such a share reverts to the company. But after the forfeiture, the liability of the member to pay all money payable by him in respect of the share at the date of forfeiture continues, until and unless the company rceives the entire amount of the face value of the share by some means or others.

Lien

Articles of Association generally empower a company to possess a lien on partly paid-up shares for all money payable by the shareholders. This lien also extends to dividends, and can be enforced by sale.

Surrender

A shareholder may surrender his partly paid shares with the consent of the company, if it agrees to relieve the shareholder of any further liability. Such a surrender is tantamount

to a reduction of share capital, and can be justified only under conditions, which justify forfeiture.

Certificate of Incorporation

After a company has filed with the Registrar of Joint Stock Companies all relevant documents with prescribed fees, the Registrar will issue a Certificate of Incorporation, denoting that the company is incorporated. Then the company acquires the legal entity or personality, and can issue its prospectus. A private company can start work immediately on getting this certificate, but a public company will have to get a commencement certificate before beginning its business.

Prospectus

The prospectus of a company is the document inviting the public to subscribe to its share capital, loan or debenture. The Indian Companies Act defines it thus: "Any notice, circular, advertisement or other invitation, offering to the public for subscription or purchase any shares or debentures of a company, but shall not include any trade advertisement which shows on the face of it that a formal prospectus has been prepared and filed." It is generally issued immediately after registration. It must be dated and signed by all the directors or their authorised agents. Signatories to the prospectus are responsible for any mis-statement or misrepresentation of facts therein. Before issuing a prospectus, it must be duly filed with the Registrar of Joint-Stock Companies. If any company does not issue a prospectus, it must issue a statement in lieu of a prospectus according to Schedule I of the Companies Act duly signed by directors or their authorised agents, giving all particulars contained in a prospectus. The prospectus is issued with the object of acquainting the public with a full and detailed knowledge of the company, in which they may be interested.

If a prospectus is advertised in a newspaper or elsewhere without its full details, then it should be clearly stated there that it is not an invitation to the public to subscribe to share or loan, but it is merely an offer to the public to apply for a

prospectus. A prospectus generally contains along with it an application form for share subscription.

Contents of a Prospectus

A prospectus should contain generally,

(1) The contents of Memorandum, names, addresses and descriptions of signatories, and number of shares subscribed by them.

(2) Number of founders', management or deferred shares (if any).

(3) The shareholders' interest in the Company's assets and profits.

(4) Names, addresses and descriptions of directors.

(5) Directors' share qualification (if any) and their remuneration.

(6) Names and addresses of Auditors.

(7) Share capital and amount payable on application, allotment and call.

(8) The minimum subscription on which directors will proceed to allotment.

(9) Preliminary expenses of the company.

(10) Any provision in the Articles for payments of brokerage and commission to agents and brokers.

(11) Remuneration of the Managing Agents or Managing Director (if any).

(12) Names and addresses of vendors (if any).

(13) Purchase price paid to them in cash, shares (partly or fully paid) or debentures. Any sum payable for goodwill must be specifically mentioned.

(14) Full particulars of interest of any director in the promotion of the company. If any amount is payable to the promoters for their services as such, in cash or otherwise.

(15) Rights of voting, and rights and dividends of each class of shares.

(16) Particulars of any material contract entered into.

STATEMENT IN LIEU OF PROSPECTUS

Dated....................

Pursuant to section 98 of the Indian Companies Act

Presented for filling by..

The nominal share capital of the Company	Rs.
Divided into	Shares of Rs. each. ,, ,, ,, ,, ,, ,,
Amount (if any) of above capital which consists of redeemable preference shares ..	,, ,, ,,
The date on or before which these shares are, or are liable, to be redeemed ..	
Names, descriptions and addresses of directors or proposed directors and managers or proposed managers, and any provision in the articles, or in any contract, as to appointment of and remuneration payable to directors or managers	
If the share capital of the company is divided into different classes of shares, the right of voting at meetings of the company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively ..	
Number and amount of shares and debentures agreed to be issued as fully or partly paid up otherwise than in cash	1. Shares of Rs. fully paid. 2. Shares upon which Rs. per share credited as paid. 3. Debentures Rs. 4. Consideration.
Names and addresses of vendors of property purchased or acquired, or proposed to be purchased or acquired by the company ..	
Amount (in cash, shares or debentures) payable to each separate vendor	
Amount (if any) paid or payable (in cash or shares or debentures) for any such property, specifying amount (if any) paid or payable for goodwill	Total purchase price Rs. Cash ... . Shares ... ,, ,, Debentures ... ,, ,, Goodwill ... ,, ,,
Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscription for any shares or debentures in the company; or	Amount payable ... Rs. ,, payable ,, Rate per cent.
Rate of the commission	
The number of shares, if any, which persons have agreed for a commission to subscribe absolutely	
Estimated amount of preliminary expenses ..	

Amount paid or intended to be paid to any promoter	Rs.
Consideration for the payment	
Dates of; and parties to every material contract (except contracts entered into in the ordinary course of the business intended to be carried on by the company or contracts, other than contracts appointing or fixing the remuneration of a managing director or managing agent, entered into more than two years before the delivery of this statement)	Number of promoters. Amount Rs. Consideration :—
Time and place at which the contracts or copies thereof may be inspected	
Names and addresses of the auditors of the company (if any)	
Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.	
It is proposed to acquire any business, the amount, as certified by the persons by whom the amounts of the business have been audited, of the net profits of the business in respect of each of the three financial years immediately preceding the date of this statement provided that in the case of a business which has been carried on for less than three years and the accounts of which have only been made up in respect of two years or one year the above requirement shall have effect as if references to two years or one year, as the case may be, were substituted for references to three years, and in any such case, the statement shall say how long the business to be acquired has been carried on	
(Signatures of the persons above-named as directors or proposed directors, or of their agents authorised in writing)	

Minimum Subscription

The minimum subscription refers to the sum of money, which the original directors of a company state in the articles and prospectus as the minimum amount, which they think must be raised by share subscription in order to provide for specified matters according to the statute, *e.g.*, (*a*) the price which is to be paid for acquiring any property or paying for any property already purchased, or for paying any loan incurred for the same, (*b*) preliminary and flotation expenses, or any loan in connection therewith, and (*c*) working capital. No allotment of shares can be made unless the minimum subscription is subscribed for. If the minimum subscription as stated in the prospectus, or where no such minimum is fixed, the whole amount of share capital offered for subscription, has not been subscribed for within 180 days after the issue of the prospectus, the whole amount received from the applicants should be returned. In default of such repayment within further ten days, the directors of the company make themselves jointly and severally liable to repay the said amount with interest at the rate of seven per cent per annum from the expiry of the one hundred and ninetieth day after the first issue of the prospectus. Allotments made in violation of section 101, Companies Act, 1913, shall be voidable at the instance of the applicant within one month of the holding of the statutory meeting albeit the company may be in course of liquidation by the time.

Allotment

After a company is incorporated, it issues its prospectus inviting the public to subscribe to its share capital. The *Letters of Application*, which are sent to the company are offers made by prospective shareholders to buy shares. They are sent duly signed, in proper form, and according to the terms of the prospectus. Generally a date is fixed on or before which the applications are to be sent. It may, however, be noted that in law there is no objection to an application for shares being made orally or by a letter. The applications are thereafter

to be considered by the directors at their Board meeting convened for the purpose. Afterwards the company proceeds to allotment, which means the distribution of shares amongst the applicants. The allotment means that the company agrees to allot the shares applied for. The company may or may not allot shares to any individual ; it may allot any number of shares according to its discretion. If no allotment is made to any individual, he receives a *Letter of Regret.* A *Letter of Allotment* is issued stating to the allottees that the allotment has been made. The company proceeds to allotment according to sections 101 and 104 of the Companies Act, and no allotment can be made, unless the minimum share subscription has been subscribed for, and at least 5 per cent. of such share money has been received in cash by the company.

APPLICATION FOR SHARES

.................................Company, Limited.

To The Directors of....................Co., Ltd.

Gentlemen,

Having paid to your Bankers the..............Bank, Limited. the sum of Rs...........being a deposit of two rupees per share on the number of shares applied for by me hereunder, I hereby apply for 200 shares of Rs. 20 each upon the terms of the prospectus issued by you and dated the.........day of.........1941, and I hereby undertake to accept such shares or any less number and to pay all further sums due thereon and to be bound by the regulations of the company, and I authorise you to place my name upon the register of members.

Signature of Applicant...

Full Name of Applicant...

Address..

Occupation...

Date.........................

A receipt form is usually annexed to the application form and as soon as the applicant pays the money either at the

company's office or at company's bankers, the bankers fill in that receipt form, sign it and return the same to the applicant. The receipt is given in the form below :—

The......................................., Limited.

Banker's Receipt to be retained by the Applicant.

Received on.............., of..............the sum of.............. being a deposit of Rs. 10 per share upon..............shares in the above named company.

For the.............Bank.............., Limited.

....

Cashier.

Stamp

LETTER OF ALLOTMENT

..................................Company, Limited.

Allotment No...........

Dear Sir,

I am instructed by the Directors of................................ Company, Limited, to inform you that in response to your application they have allotted to you 200 Shares in the Capital of the Company.

The total amount due upon application and allotment on 200 shares alloted to you is	Rs.........
You have already paid on application for 200 shares	Rs.........
Leaving a balance due from you	Rs.........

which kindly pay to the company's Bankers, The................. Bank, Limited, Calcutta.

Due notice will be given when the share certificates are ready for issue and these will then only be delivered in exchange for this letter, accompanied by the receipts for deposit paid upon application and other payments made.

Enclo.

I am Sir,

Yours faithfully,

Secretary.

Form of Return of Allotments

It should also be noted that in accordance with the requirements of the Indian Companies Act, whenever a company having a share capital makes any allotment of its shares, a return must be filed with the registrar within one month of the allotment. This return must indicate the number and nominal amount of the shares comprised in the allotment, the names, addresses and descriptions of the allottees and amount if any paid or due and payable on each share and should be in the form given below:—

RETURN OF ALLOTMENTS

Filing Fee Rs. 3

Return of allotments from the.........of............19.........to the ....of.............., 19.........of the.................

....

Made pursuant to Section 104 (1)

to be filed with the Registrar within one month after the allotment is made.)

Number of the shares allotted payable in cash..........................
Nominal amount of the shares so allotted..........................
Amount paid or due and payable on each such share............
Number of shares allotted for a consideration other than cash....
Nominal amount of the shares so allotted..........................
Amount to be treated as paid on each such share. ....

The consideration for which such shares have been allotted is as follows:—

* * * * * *

Presented for Filing by.......................................

Names, Addresses and Descriptions of the Allottees.

Name in full	Address	Descriptions	Number of shares allotted.	
			Preference	Ordinary

....

Managing Director.

Letters of Regret

In case of applicants, who are not allotted the shares they applied for, "Letters of Regret" are forwarded by the Secretary informing them that the shares were not allotted to them. The shares are not allotted for various reasons. This step is usually adopted when a larger number of shares have been applied for than are available, in which case the directors naturally select those applicants whom they consider to be the most desirable to be admitted as shareholders and reject the rest. It may happen that even though all the shares are not applied for, there may be among the applicants a few who in the opinion of the directors are not desirable men to be allowed to buy the shares of the company for some reason or other, and so they are refused allotment.

LETTER OF REGRET

....................................Company, Limited.

To..

Sir,

I regret to inform you that the Directors are unable to allot you any of the shares of this Company in compliance with your application for.................shares of the company.

I enclose herewith a cheque for Rs.................being the amount paid by you on the above mentioned application.

I am Sir,
Yours faithfully,

Secretary.

RECEIPT

25th July, 1945.

Received of the...............................Company, Limited, the sum of Rupees.................being the amount deposit by me on application for shares in the same.

Rs.

Stamp

Form of Call Letter

The directors then make calls on account of these shares as may be found necessary and convenient for the working of the company and after having decided at their board meeting to make a call, the secretary sends out notices of call which are generally printed with counterfoils bound in book form and consecutively numbered.

CALL NOTICE

..................................Company, Limited.

No...............

Notice of First Call of.................per share of Ordinary shares (making..............per share called up).

....................Calcutta.

Dated.........................

Dear Sir,

I beg to give you notice that first call of.................per share has this day been made by the Board in accordance with the terms of the Prospectus. On the...........shares held by you in this Company, the call amounts to Rs.............. This amount should be remitted to the Company's Bankers (The...............Bank, Ltd.), on or before.................next.

(Enclo) Secretary.

To.........................

....

................., Street,

Yours faithfully,

Calcutta.

I am Sir,

Form of Application and Allotment Book

The applications and allotments are then entered in the Application and Allotment Book which is ruled as below :—

No. of	Applicant's name	Residence	Profession	Date of Application	No. of shares applied for	No. of shares allotted
2	Mr.........	4/1, ... Cal.	Service	1945 5th April	200	200

SHARE REGISTER

........................Co., Ltd.,

Name of Member.................................Date of commencing to be a member..............................

Address..

Occupation ....Date of ceasing to be a member..

Shares Disposed of.							Shares Acquired							Balance.	
Date.	No. of Transfer Deed.	Folio in Transfer Register.	No of Shares.	Distinctive Number of Shares.		Amount of Capital paid up.	Date	No. of Allotment or Transfer.	Distinctive Number of Shares.		Details	Folio.	Amount of Capital paid up.	Shares	Capital paid up Rs. a. p.
				From	To	Rs. a. p.			From	To			Rs a. p.		

The Register of Members

The entry is then made in the Register of Members on a separate page allotted to the name of the particular shareholder as shown below:—

The Call Book

For each of the calls made, a Call Book is made out with rulings as under and filled in as shown below:—

SHARE TRANSFER FORM

I .... in consideration of the sum of Rs. .... paid by John ...., hereinafter called the said Transferee.

Certificate of the within mentioned . . . . shares has been lodged at the Company's office.

Do hereby bargain, sell, assign and transfer to the said transferee.................................. fully paid share of .... each numbered .... to .... inclusive, of and in the undertaking called .... Company Limited.

To hold into the said Transferee, his Executors Administrators and Assigns, subject to the several conditions on which I held the same immediately before the execution hereof ; and I the said Transferee do hereby agree to accept and take the said shares subject to the conditions aforesaid.

As Witnesse our Hands and Seals, this .... day of .... in the year of our Lord one thousand nine hundred and fortyone.

Signed, sealed, and delivered..
by the above named...
in the presence of

Witness's
Signature...
Occupation...
Address...

.................................SEAL.

Signed, sealed, and delivered..
by the above named...
in the presence of

Witness's

Signature..
Occupation...
Address..
..............................SEAL.

The Share Transfer Form is to be stamped *ad valorem* on the basis of consideration or purchase price paid by the buyer or transferee to the seller or the transferor. The transfer form indicates the amount of consideration for which the shares are sold, but it often happens that the consideration as shown and inserted in the transfer form differs from that which the original seller actually receives from the original purchaser, *e.g.*, before the transfer is actually effected, the original purchaser has sold over the shares to a sub-purchaser. Here according to law the actual amount paid by the sub-purchaser to the original purchaser must be entered as "consideration Money" in the transfer form and not the actual amount which the original seller received from the original purchaser.

The Share Transfer Book

The Application and Allotment Book, the Call Book and the Share Ledger are subsidiary books kept in order to keep a detailed record of the whole capital of the company as held by the different shareholders, the amount actually paid by them and the amount actually due by them. There is, also an additional book known as the Share Transfer Register which records details regarding the transfer of shares from one person to another as given in the following form:—

CALL BOOK

First Call of Rs........., made ....April, 1945 making amount paid up on each share Rs........................

Name	Address	Occupation	Folio in the Register of Members	No. of shares held	Total Amount of Call	Date paid	C.B. Folio	Interest
Mr.....	4/1, ... Cal.	Service		200	Rs........	2nd April 1945		

TRANSFER REGISTER

.... Co., Ltd.

No. of Transfer	Date of Transfer Lodged.	Date of Transfer Deed.	Transferer's			Transferer's Folio in Share Register.	Number	Shares Transferred				Transferee's			Transferee's Folio in Share Register	No. of New Certificates
			Name	Address	Occupation			Amount per share paid	Capital paid up	Distinctive Numbers		Name	Address	Occupation		
										From	To					

LETTER OF INDEMNITY

Where any shareholder loses his share certificates and applies for fresh certificates to be issued to him he must give a Letter of Indemnity to the company undertaking to make good any loss which the issue of the new certificates may bring to the company. Where the number of shares is small and the shareholder is a man of standing and position, his personal indemnity may be deemed sufficient. If the shares involve a large amount a Letter of Guarantee of a substantial party is also necessary.

In case of loss of Dividend Warrants also a similar formality is to be observed. The first step to be taken by the secretary on being informed of the loss of a Dividend Warrant is to stop payment of such warrant in case it is presented for payment by some other party. The next step is to request the shareholder to give him a Letter of Indemnity in the usual form before any duplicate Dividend Warrants are issued.

These Letters of Indemnity must be stamped and generally the company must advertise the loss of share certificates and relevent costs must be paid by the shareholder concerned. The usual practice is to state in the advertisement particulars of the share certificates lost, their serial numbers, and to notify to the public that in case nobody comes forward with a valid objection within three months duplicates will be issued in due course.

The following is the usual form of a Letter of Indemnity:

The..Ltd.

Registered Office............................

.................2nd April, 1945

To

THE SECRETARY,

The...Co., Ltd.

DEAR SIR,

In consideration of a fresh certificate for .... fully paid ordinary shares of Rs............ each in the above company numbered .... to .... (inclusive) having this day been

issued to me in place of the original certificates for the said shares previously issued to me and which have been since lost, I hereby undertake to indemnify the company against all costs and expenses which the company may incur in consequence of the above .... certificates for the said shares.

Yours faithfully,

Certified Transfers

Generally the rules of the various Stock Exchanges insist that the seller must hand over to the buyer a transfer form duly executed along with the relevant share certificates against which the buyer must pay the purchase price of the said shares as settled. In many cases, however, the seller possesses one certificate for a number of shares out of which he is selling a few. In such instances he places the share certificate at the company's office and obtains from its secretary a marginal acknowledgment of this lodgment. The transfer is thereafter technically known as a "certified transfer" on the Stock Exchanges. It should, however, be pointed that this certification does not amount to any guarantee that the transfer will be accepted. It is a mere acknowledgment of the receipt of the relevant share certificate regarding that transfer.

Balance Receipt or Ticket

Where a certificate of shares is placed containing a larger number of shares than are sought to be transferred, the practice is that in some cases the secretary of the company concerned issues to the seller, or his broker, a receipt for the balance of shares which receipt is called "Balance Receipt". This receipt states, in effect that the seller in due course, is entitled to receive a certificate for the balance of untransferred or unsold shares. Care should be taken to see that such "balance receipt" is signed by some responsible officer, *e.g.*, the secretary or the

registrar of the company. This receipt is sometimes also known as "Balance Ticket". Generally it is in the form shown below :—

THE....................................

COMPANY, LIMITED

.............Road, Calcutta.

BALANCE TICKET

No..................

...............19......

Certificate No......... ......

No. of Shares...............

Total..............

Certified..............

....

Balance..............

Distinctive Numbers on Balance Ticket.

From	To

Issued to..

Balance certificate ready..

THE..

COMPANY, LIMITED

.............Road, Calcutta.

BALANCE TICKET

No..................

...............19......

This is to certify that a Balance of..... ....shares in the................. Company, Limited numbered from ....to...........both inclusive, now stands in the Company's Books in the name of... .... The Balance Certificate will be ready on....................

Note :—No Balance Certificate will be issued or Transfer certified, until this Ticket is lodged with the Company.

NEW ISSUES OF SHARES

When an existing company issues new shares, the existing shareholders or members may desire that they should be given the first option of purchasing these shares. The result is that to them also fractional certificates must be issued in case where they do not hold the requisite number of shares. The principle here followed is more or less the same as in case of split share-certificates issued in the case of bonus shares. The resolution passed in this connection should express the amount of the new issue and its class defining the rights of that class and the terms on which the said shares are to be issued. The resolution generally provides as to how the balance of shares not taken up by existing members is to be dealt with.

Coupon when New Shares are issued and option given to present Shareholders to purchase one Share for eight Shares held.

ORDINARY SHAREHOLDERS

This coupon must be presented before the....................

No...............

The................................Company, Limited.

Issue of..............ordinary shares of Rs...............

each Nos.................

to.......................

To the shareholders at Rs..................per share, payable in full before the...........day of.................

The shares will rank for dividend as if fully paid up from the.............day of.................

Coupon for one-eighth of an ordinary share.

The delivery of this coupon and seven like coupons together with a remittance of Rs............paid to the company's bankers before the...........day of...........will entitle the person whose signature appears on the back hereof to have allotted to him one ordinary share of Rs............of the above issue.

.............................Address.

..........................Secretary.

Dated......................

There are instances where the fractional issue is avoided and shares are only purchasable by those who are qualified to buy same by their holding. The register of members will naturally be closed for the time being. A list must be prepared by the secretary showing the names of the shareholders entitled to purchase these new shares and arrangement should be made with the bankers to receive the cash in a special account paid against the purchase of such an issue.

FORM OF RENUNCIATION LETTER

The..Co., Ltd.

15, ... Road

Calcutta, 25th April, 1945.

To

The............................

....

Calcutta.

SIR,

INCREASE OF CAPITAL

As a Member of the Company you are entitled to an allotment at par of....................new Ordinary Shares about to be issued, in accordance with the special resolution passed on ...., 1945 being at the rate of two new Ordinary Shares for every eight shares now held by you.

Unless I hear to contrary, meanwhile the................. Ordinary Shares in question will be allotted to you on the ...., 1945.

Should you desire to renounce your right to such allotment in favour of some other person, please be good enough to sign the Letter of Renunciation below, and have it forwarded to this office on or before.................. This letter is not to be detached.

Your obedient servant,

Stamp

Secretary.

LETTER OF RENUNCIATION

To The..Co., Ltd.

Being entitled to an allotment at par of.................... Ordinary Shares of Rs...............each in the above Company, I hereby renounce my right to such allotment and hereby request you to allot such shares to:—

(Full name)...

(Address)..

(Signature)..

(Date)...

LETTER OF ACCEPTANCE

To The............................Company, Limited.

I agree to accept the above..............Ordinary Shares, and to pay the calls thereon, and desire to be entered on the Company's Register of Members in respect thereof.

(Signed)...
(Address)...
(Description).......................................
(Date)...

Form of Notice of Forfeiture

Regarding the notice of call it may be stated here that where a shareholder fails to pay calls made on him in accordance with the notice, the directors may at their board meeting decide to forfeit his shares in exercise of powers usually reserved to them in the Articles of Association and in such a case the defaulting shareholder will be liable to pay the call already made, in spite of the forfeiture. The letter as to forfeiture written to the defaulting member is usually written as follows :—

The..Co., Ltd.
.................Road,
Calcutta, 2nd January, 1945.

Mr........................
.................Road,
Calcutta.

DEAR SIR,

I regret that you having failed to comply with the notice forwarded to you on 1st March, 1945 in which I stated that your shares were liable to be forfeited in case the first call made on your shares was not paid on or before the date specified in my last letter, I am directed to inform you that in the meeting held to-day the...........Ordinary Shares Nos........... inclusive, which were registered in your name, have been duly forfeited by the resolution of the board of directors. The directors have reserved to themselves the power either to re-issue the said shares or to deal with them in any other

manner as they may think fit and in the meantime I have to point out to you that you are still liable for the payment of the first call, in spite of their forfeiture.

Yours faithfully,

Secretary.

Company Underwriter or Underwriter of Shares

A company underwriter generally refers to one, who undertakes to guarantee the sale of the whole or part of the share issue or debenture of any company. If he fails to sell to the public his guaranteed issue, the unsubscribed portion is taken up by himself. He may in some cases buy up whole or part of an issue either to retain it for himself or to sell it at some future date at a premium. He is paid in return for his services a commission not exceeding 10 per cent. of the face value of the shares, and his rate of remuneration must be according to articles of association, and clearly stated in the prospectus of the company. Underwriting commission should be clearly distinguished from ordinary brokerage paid to brokers for sale of shares.

An underwriter is generally an expert in finance, and he has a full grasp of the psychology of the public. He knows when to issue capital, and in what line. He is an invaluable aid to the promoter of a company. He can rightly guide a promoter in issuing share capital. By undertaking to sell the shares, he relieves the promoter of the financial worries, and facilitates the subscription. He very often advances money to the promoter in anticipation of sale of shares. A trustworthy and well-reputed underwriter is also a great help to the investing public. He will not underwrite any share capital, unless he is convinced of the *bona fide* of the business. By lending his name to any issue, he at once creates confidence of the public who generally take up the issue simply on the strength of his name being associated with the issue. In India, underwriters are fast growing as a specialised class of financial experts, and firms like Place Siddons and Gough, Mungeram Bangour and Company, and others are quite popular as company under-

writers. Their importance in India is specially great, where capital is as yet shy, and public confidence must be invoked for industrial and commercial investments.

Stocks and Shares

Where the capital or loan to a company is in one sum, which, for transfer purposes, is divisible into amounts denoted like shares by their nominal value, it is called a stock. A stock is usually transacted in multiple of some monetary unit, while a share is an indivisible unit into which the capital of a company is divided for purposes of issue and transfer. A share is transferable only as an indivisible unit and a whole. A share may be partly or fully paid up, whereas a stock must always be fully paid up. A share must always possess a distinct number, while a stock bears no number. Government stock means fractional amounts of the aggregate Government debt and a debenture stock refers to those of the aggregate loan of a company. A company limited by shares may convert all or any of its fully paid up shares into stocks or re-convert any of its stock into fully paid shares by a resolution in a general meeting, provided its articles of association permit. Rights of shareholders or stockholders remain intact by such changes, and notice of the latter must be notified to the Registrar of Joint-stock Companies within fifteen days of such changes.

Kinds of Stocks

1. *Debenture Stock* is considered as a loan of the company, and so it has priority of security over the entire assets of the company. It ranks before other kinds of stocks of a company regarding payment of interest or dividend.

2. *Guaranteed Stock* means the cumulative preference stock with also a prior right to return of capital. It is not raised for any borrowed amount, and so it comes next to debenture stock as a claimant to have security over the assets of the company. It has priority over other class of stocks regarding payment of capital, dividend or interest, but next to debenture stock.

3. *Preference Stock* comes after the above two in having preference of payment regarding capital, interest or dividend, but it has priority of payment over the ordinary stock.

4. *Ordinary or Common Stock* has no guarantee nor any preference. It bears the risk of business, and its return in form of dividend or interest depends on the result of the business of the company, and so it is variable.

A company by its articles of association may enable a stockholder to change his stock from one class to another according to his option, and in such a case the stock is said to be a *convertible stock.*

Debenture

A debenture represents the loan of a company. It is an instrument issued under the seal of the company, acknowledging its debt to the holder. The terms and conditions of a debenture are endorsed on its back, and they relate to the rate of interest to be paid, and the mode of its repayment. A debenture is a promise of the company to repay it after a certain period or at the option of the company, either in instalments or at once.. It may be secured by a charge on the whole or a part of the assets of the company, or it may be wholly unsecured.

Since debentures represent loans of a company, it can only issue them provided it has got borrowing powers. Generally a trading company has this power implied even though it may not be expressly provided for. But a non-trading company has no implied borrowing power, nor any right of issuing debentures, unless so authorised by the memorandum of association. Articles of association generally restrict the borrowing powers of a company.

Kinds of Debentures

1. *Naked or Ordinary Debentures* refer to those, which are issued by a company without any security charged against their repayment of capital, or payment of interest.

2. *Mortgage Debentures or Mortgage Bonds* denote such as have a charge on the whole or part of the assets of the company for payment of interest and capital.

Mortgage debentures may again be (a) *Fixed* or (b) *Floating.* In fixed debentures, certain or all assets of the company are specifically mortgaged for securing the debentures, and the company can deal with such mortgaged assets only with the consent of those debenture-holders. The company cannot affect the constitution of such assets without the consent of the debenture-holders. Debentures are called floating ones, where the charge on the assets of the company amounts to the nature of a lien on the assets, and the company can deal with these in the general interest of the business. Any charge on or mortgage of any asset of the company will be void as against a liquidator or creditor, if not registered within 21 days of the charge so made.

3. *Redeemable Debentures* are those, where a company has the right of paying off the debentures on or after a stated date. They may be redeemed all at once, or gradually. Generally, they are redeemed out of a Debenture Redemption Fund created for the purpose, or by the issue of new debentures.

4. *Irredeemable or Perpetual Debentures* denote those where the company has the right of not paying off the principal at any time, except in the case of winding up or of default in the payment of the interest.

5. In case of *Registered Debentures,* the names of the holders are recorded in the books of the company, and they are not transferable by mere delivery. In case of a transfer, the transferer must surrender his instrument to the company and execute a transfer deed duly signed by him and the transferee before witnesses. Then the company will issue a fresh instrument to the transferee after cancelling the old one, and then the transferee's name will be substituted in the place of the transferer in the books of the company.

6. *Bearer Debentures* are those, where the names of the holders are not registered in the books of the company, and they are transferable by mere delivery.

Though various kinds of debentures have been classified, in practice we may very often find that a debenture may possess

characteristics of more than one type, and no rigid classification can therefore be made.

DEBENTURE

No..............

THE...................................COMPANY, LIMITED.

INCORPORATED UNDER THE INDIAN COMPANIES ACT.

Registered Office.........................

Issue of.................First Mortgage Debentures to Bearer, carrying interest at the rate of.................per annum.

DEBENTURE

1. The..............Company Limited (hereinafter called "The Company") will, on the..............or on such earlier day as the principal moneys hereby secured become payable in accordance with the conditions endorsed hereon, pay to the bearer on presentation of this Debenture the sum of......................
2. The Company will in the mean time, pay interest thereon at the rate of....................per cent. per annum by equal yearly payments on every 1st day of.................and 1st day of.................in accordance with coupons annexed hereto.
3. The Company hereby charges with such payments its undertaking and all its properties whatsoever and wheresoever both present and future.
4. This Debenture is issued subject to and with benefit of the condition endorsed hereon, which are to be deemed part of it.
5. Given under the Common Seal of the Company this ....day of..............1940.

SEAL...Directors.

....Secretary.

INTEREST COUPON

THE..........................COMPANY, LIMITED,

DEBENTURE NO..............INTEREST COUPON NO...............

For....................(less income tax) One year's interest due the..............day of..............and payable at the................. Bank Limited or at the registered office of the Company.

Secretary

Debentures and Shares

(A debenture is a loan of the company, whereas a share is capital. A shareholder is a proprietor of the company, takes part in its management, and participates in profits of the company in form of dividends as they arise. A debenture-holder is a creditor of the company, either secured or unsecured. He may have some say in the management of the company, if articles of association so permit. He merely gets a fixed rate of interest, whether the company makes profits or incurs losses. The share capital cannot be refunded, except in case of redeemable preference capital, in case of the liquidation of the company, or if the capital is reduced. The debentures of a company are usually returnable. Rights of debenture-holders rank before shareholders in payment in case of a company going into liquidation or winding up its business. Shares cannot be secured by a charge on the assets of the company.)

Dividends

Dividend is the payment made to the shareholders of a company on their money invested in the shares of the company. Dividend cannot be paid except out of profits, and hence varies according to the latter. It is usually recommended by the Directors on the auditor's report, and finally sanctioned by the company in a general meeting.

Interim Dividend is declared by the Directors if articles of association so provide for, between two ordinary general meetings, whenever the profits of the company justify such a declaration.

THIS PRECEDES A DIVIDEND WARRANT

THE.................................COMPANY, LIMITED,

To......................................

Address..................................

Date....................................

To...............................

Dear Sir,

Pursuant to a resolution passed in the General Meeting to-day, I beg to hand you warrant for Dividend on your shares in respect of the year ending............................

	Rs. A P.
Dividend..........................per share ...	
On..................................Shares ...	
Less Income-Tax @...........in the Rupee ...	
Amount of Warrant	

I certify that Income Tax on the entire amount has been paid by us to the Government of India.

Secretary

DIVIDEND WARRANT

THE............................COMPANY, LIMITED.

Address...........................

Dividend Warrant for the year ending..............

Date..............................

No...............

To

THE............................BANK, LIMITED.

Address...........................

Pay to..........................or order the sum of Rs. only, for the above named Company.

Directors

....

Secretary

FORM OF THE COPY OF THE REGISTER OF DIRECTORS

A complete Register of Directors or Managers of a Company must be kept containing their names, addresses and occupations. A copy of this Register has to be filed with the Registrar from time to time showing changes. The copy will be in the following form:—

Copy of the Register of Directors or Managers and changes therein.

THE INDIAN COMPANIES ACT, 1913.

Filing Fee Rs...............

Copy of the Register of Directors or Managers of the ....Company, Limited, and of any changes therein filed pursuant to in Section 87 (1).

Presented for filing by.........................

Names	Address	Occupation	Changes

Dated

Signature.

The Common Seal

A joint stock company is a body corporate by the name contained in its memorandum, having a perpetual succession and a common seal. The name of the company is engraved in legible characters on its seal. This seal is the official signature of the company to be affixed on all important documents as provided for in the Articles of Association. The Articles of Association generally provide that the seal shall be fixed in the presence of at least two directors and the secretary. These directors attest the document so sealed which is thereafter countersigned by the secretary. The seal is kept under lock

and key. In order to keep a proper record of the affixing of the seal it is usually arranged that a special book called the "Seal Book" be maintained containing a record as to the occasions on which the seal is used together with the description of the documents on which the same is affixed. This entry is initialled by the directors present. The entries in the seal book should coincide with those in the Minute Book. The Seal Book is usually ruled as follows:—

SEAL BOOK

Date of Sealing	No. of Minute and page of Minute Book	Documents sealed	Directors' initials	Remarks

Statutory Books

It should be pointed out that a joint stock company under the Indian Companies Act must maintain the following books which are known as the statutory books, *viz.*, (1) Register of Members, (2) Register of Directors, (3) Register of Mortgages and Charges; (4) Minute Book and (5) Annual List and Summary Book.

Optional Books

Besides the statutory or compulsory books it is usual for joint stock companies to keep a large number of optional books such as (1) Application and Allotment Book, (2) Call Book, (3) Share Certificate Book, (4) Register of transfers (5) Debenture Interest Book, (6) Dividend Book (7) Seal Register, (8) Register of Probates, (9) Directors' Attendance Book, (10) Agenda Book, (11) Register of Debenture Holders.

The above two sets are known as the "company set". They are distinct from what is known as "the financial set"

of books which are maintained to register business transactions of receipts and payments, purchases and sales, profits and losses incurred by the company and also to record the assets and liabilities and reserve fund of the company.

Class Meetings for Variation or Modification of Rights

A Class Meeting is a meeting of shareholders of a particular class convened in order to ascertain their views through a resolution on a question relating to their class. Where a re-organization of share capital has to be made it is clearly provided that no preference or special privilege attached to or belonging to any class of shares shall be interfered with except by a resolution passed by a majority in number of shareholders of that class, holding three-fourths of share capital of that class, and any resolution so passed shall bind all shareholders of that class. Generally, holders of shares of a particular class are given the privilege by memorandum or articles to appoint separate auditors, over and above those appointed by the company in general meeting on behalf of the general body of the shareholders through a class meeting of the shareholders concerned.

Regarding variation or modification of rights of share-holders it may be pointed that this has been specifically provided for by the Indian Companies (Amendment) Act of 1936. The relevant section lays down that in the case of a company the share capital of which is divided into different classes of shares, provision is made by the memorandum or articles for authorising variation of rights attached to any class of shares in the company, subject to the consent of specified proportion of holders of the issued shares of that class or the sanction of a resolution passed by a separate meeting of holders of these shares, and in pursuance of the said provision the rights attached to any such class of shares are at any time varied, the holders of not less in the aggregate than ten per cent of the issued shares of that class, who did not consent to or vote in favour of the resolution for variation, may apply to the Court to

have the said variation cancelled. Where any such application is made, the variation shall not have effect unless and until it is confirmed by the Court. An application for this purpose must be made within 14 days after the date on which the consent was given or the resolution was passed. This application may be made in behalf of shareholders entiled to make the application, by such one or more members as the shareholders may appoint in writing for the purpose. The Court after hearing the applicant and any other person who applies to the Court to be heard and who is interested in the application, may, if it is satisfied having regard to all the circumstances of the case that the variation would unfairly prejudice the shareholders of the class represented by the applicant, disallow the variation. If, on the other hand, the Court is not satisfied, it would confirm the variation. The decision of the Court on any such application shall be final. The company must, within 15 days after the service of any order made on any such application, forward a copy of the said order to the Registrar. In case of default in complying with this provision, the company and every officer who is wilfully in default is liable to a fine not exceeding Rs. 50. The expression "variation" in this section includes "abrogation" and the expression "varied" shall be construed accordingly.

It is also provided that in default of, and subject to, any regulations in the articles, the meeting of the compony may be called by fourteen days' notice in writing, served on every member in the manner in which notices are required to be served by Table "A", by any five members at which meeting any person elected by members present, may be chairman, and every member shall have one vote. When meetings are advertised to be held at which certain resolutions are notified to be proposed, it is within the powers of the directors to issue circulars to members persuading them to vote one way, or the other, and they are entitled to collect proxies in their favour. At meetings of the company, members have no right to be represented by their agents, or solicitors, and articles of association of companies usually provide that in case of vote by

proxies, the proxies shall be of members of the company in their own rights.

FORM OF NOTICE AS TO SITUATION

A notice in writing of the situation of the registered office of a company to which all communications and notices are to be addressed has to be filed with the Registrar. It is generally in the following form :—

THE INDIAN COMPANIES ACT, 1913

Section 72

NOTICE OF THE SITUATION OF THE REGESTERED OFFICE

Of

THE..COMPANY, LTD.

To

The Registrar of Joint Stock Companies,

The directors of the above named company hereby give you notice pursuant to Section 71 (1) of the Indian Companies Act, 1913, that the registered office of the Company is situated at No...

Secretary

Dated.

Interest Allowed to Shareholders out of Capital

The Indian Companies Act under section 107 empowers a company to pay interest out of its capital to such shares on the amount of their paid up capital for the time being, as are issued for the object of raising money in order to defray the expenses of the construction of any works, buildings, or plants which cannot be made profitable for a prolonged period under the following conditions.

(*a*) No such payment shall be made unless it is authorised by the articles of association or by special resolution.

(*b*) No such payment can be made without the previous sanction of the Local Government.

(*c*) The Local Government may before giving its sanction appoint an officer to inquire into such a case at the costs of the company.

(*d*) The payment of such interest will be only for such a period as is sanctioned by the Local Government, and the period in no case can extend beyond the close of the half-year next after the half-year during which such works, buildings or plants have been actually completed.

(*e*) The rate of interest must not exceed 4 per cent. per annum or any such lower rate as may be prescribed by the Governor-General in Council by notification in the Gazette of India.

(*f*) The payment of interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.

(*g*) The accounts of the company must show the share capital on which, and the rate at which interest has been paid out of capital during the period to which the accounts relate.

Kinds of Securities

Shares, stocks, debentures, all these come under the category of securities, which are generally, (*a*) *Registered securities*, where the holders' names are registered in the Register of the company. They are not negotiable instruments. In transferring such securities, the transferer must execute a transfer deed in favour of the transferee duly signed by both the transferer and the transferee before witnesses. Then the company will issue a new certificate, regarding the name of the new holder, and this will also be duly recorded in the company's Register. (*b*) Banks sometimes manage the issues of companies, Government or Corporations. They do not issue any certificate. Only the name of the holder is inscribed in the books of the Bank. When such securities are bought and sold, the buyer receives a stock receipt from the recognised broker, which is sent to the Bank. The Bank inscribes in its books the name of the new holder, and pays him the usual dividends by means of dividend

warrants. These are called *Inscribed securities.* (c) *Bearer securities* are negotiable instruments, and transferable by mere delivery. The bearer is deemed to be the legal holder. A number of Interest or Dividend Coupons are attached to such securities, and they yield dividend or interest on presentation at their due dates. A form is attached to them known as a *Talon,* on presentation of which fresh coupons are supplied if the existing supply is finished.

Funded and Unfunded Debts

Governments have to borrow from time to time for state purposes. These loans are known as public debts, or Government Securities. It may be of two kinds, namely, (a) *Funded* and (b) *Unfunded.* *Funded debt* means the permanent debt of the Government, who is under no obligation to repay the capital though interest on it is regularly payable. But the Government has the right of repaying the capital after a certain time by giving due notice. Consols refer to the various British national debts, which have been consolidated into one, bearing interest at the rate of 2½ per cent. per annum. Generally, a Government creates and develops a *Sinking Fund* out of its revenue in order to pay off the Funded Debt. *Unfunded Debts* mean the temporary loans of the Government, which are repayable at specified periods. Interest on them is, however, regularly paid. Unfunded Debts are generally paid out of new issue of Government securities or Government debts, and no Sinking Fund is created for the purpose.

Treasury Bills, Exchequer Bonds, Debentures of Public Bodies

The Government of India borrows by means of *Treasury Bills,* which are sold at a discount by tender, and payable at par. They are of three, six or twelve months' duration. They bear no interest. *Exchequer Bonds* are issued by the British Government for purposes of borrowing, bearing fixed rates of interest, and repayable on fixed dates. Public bodies like The Improvement Trust, The Port Trust, Corporations generally

borrow by issuing debentures, bearing interest and are repayable after a stated period. Railways and other public companies generally borrow by means of Bonds, when their other sources of borrowing powers have reached the maximum limits as provided in their articles of association. These Bonds are usually known as Lloyds Bonds named after the founder, J. H. Lloyd. They carry interest and are repayable after a stated period.

Questions

1. You are required to draw up a Memorandum of Association for a company which is shortly going to be registered. State and explain the particular matters which are to be dealt with in this document. What is the procedure of altering the objects clause of a Memorandum? (B. Com., Cal., 1941).
2. What steps at successive stages would you take to float a Limited Liability Company from the inception to the commencement of work? (B. Com., Cal., 1926).
3. When a new Company is being registered what considerations determine the amount of the Company's Capital and its division into shares of different classes? (B. Com., Cal., 1927).
4. In the case of a new company which occupies the first two years of its existence in erecting and organising its work, what expenditure incurred during that period do you think might reasonably be capitalised? What formalities must be gone through before this capitalisation is in order? (B. Com., Cal., 1927).
5. (*a*) Give the main classes into which securities are divided. Why should a Company appealing to the public for capital sometimes offer a choice of different classes of shares?

   (*b*) Differentiate between a Private and a Public Limited Company. (B. Com., Cal., 1928).
6. What are the peculiar characteristics of Private Companies and what advantages do they possess? (B. Com., Cal. 1930).
7. What do you understand by Memorandum of Association? How does it differ from the Articles of Association? Discuss the contents of both. (B. Com., Cal., 1930).
8. What are the steps that are generally taken in the course of the promotion of a company? In this connection discuss fully the question of underwriting the shares in financing of companies. (B. Com., Cal., 1930).
9. The Joint Stock Company is the only form of organisation in which a permanent opposition of interest can exist. Examine this state-

ment, and show by what devices this opposition to a certain extent may be eliminated. (B. Com., Cal., 1931).

10. State under what circumstances a company can allow interest upon its share capital. (B. Com., Cal., 1934).
11. A city municipality wants to float a debenture loan on the security of its rates. As Financial Adviser to the municipality, draft a report to be submitted to the Finance Committee, discussing the various considerations that may arise. (B. Com., Cal., 1934).
12. A municipal corporation is shortly to issue a debenture loan. You are a shareholder and one of your clients is interested in such debenture. Write a letter (complete with all details) to your client, acquainting him with the expected issue and setting forth the probable terms under which the floatation of the loan may be expected. (B. Com., Cal., 1936).
13. What information do you expect to find in the prospectus of a company, and how would you scan it from the standpoint of an investor? (B. Com., Bombay, 1929).
14. Trace the origin of a Public Company, and point out the dangers of this form of business organisation. How far can this be mitigated in practice? (B. Com., Bombay, 1930).
15. Estimate the services of underwriters to business enterprise.
16. Distinguish between the several forms under which the working capital is obtained in joint-stock undertakings. (B. Com., Bombay, 1924).
17. What are the advontages and defects of converting a partnership into a limited company? (B. Com., Lucknow, 1923).
18. Discuss relative merits of a partnership and a private company as forms of business organisation. (B. Com., Bombay, 1927).
19. Discuss the advantages and disadvantages of partnership and public Companies. Suggest remedies to overcome the defects. (B. Com., Bombay, 1929).
20. Set out the main differences between a sole trading concern, a partnership and a public limited company. (B. Com., Bombay, 1924).
21. Consider the principle of Limited Liability in relation to interests of individual business firms, (*b*) the general economic interests of a country. (B. Com., Bombay, 1926).
22. What are the points which require specially to be considered in the financing of a new business? (B. Com., Bombay, 1927).
23. How does a joint-stock organisation compare with a partnership organisation? Where does the weakness of the latter lie? (M. Com., Cal., 1928).
24. Discuss the function of a promoter in relation to joint-stock companies. Indicate the motives and effects of stock-watering. (M. Com., Cal., 1928).

25. Distinguish between a Partnership and a Limited Liability Company, carefully explaining the comparative advantages and disadvantages of each. (B. Com., Cal., 1943).
26. Mention the two most important documents you would think of when a new company is being registered. Give a brief account of the contents of each of these documents. (B. Com., Cal., 1944).
27. What is the Prospectus of a joint-stock company? State briefly five of the principal features of a Prospectus for a new company.

CHAPTER IV

COMPANY MANAGEMENT AND SECRETARIAL PRACTICE

Company Management

In the case of companies, the internal management is controlled by the following agencies:—

(1) Proprietors or Shareholders,

(2) Board of Directors,

(3) Secretaries and Agents,

(4) Departmental Managers,

(5) Employees in the various departments.

In the case of industrial corporations, there is also a distinct staff in connection with the factory or mill, with the technical managers, superintendents, foremen and the labour force.

Directors

Directors are persons who are generally elected by shareholders from amongst themselves in order to conduct the affairs of a company. The shareholders usually confirm the appointment of directors in general meetings, while in course of the working year, vacancies are filled up by the Board of directors. The terms and conditions of their appointments are regulated by articles of association. The Directors act collectively as a Board. They are representatives of the company and act on behalf of the shareholders. The shareholders being usually numerous cannot directly take part in the management of the company. The management of a company can, therefore, be said to be a democratic one, because shareholders who are proprietors of the company manage it through their selected representatives, the directors.

Appointment of Directors

No person can be appointed, named or proposed as a Director in a prospectus unless before its issue or registration

of articles of association, he (*a*) signs and files with the Registrar of Joint-stock Companies a consent to act as a Director, (*b*) signs the memorandum for qualification shares, (*c*) pays or agrees to pay for such shares, (*d*) signs and files a contract in writing to take and pay for his qualification shares, (*e*) makes and files an affidavit with the Registrar stating that the qualification shares are registered in his name.

Unless otherwise provided, the subscribers to the memorandum, become the directors until directors are selected by shareholders in a general meeting. At least two-thirds of the Board of Directors must be liable to retire by rotation.

Every public company must have at least three directors.

Articles of association generally fix the number of shares, which qualify for directorship unless otherwise provided for, and qualification shares must be acquired within two months of appointment. Articles can also provide for that a director may be appointed without any share qualification and that he need not be a shareholder.

In case there is a default in the appointment of the directors, the subscribers to the memorandum are to be deemed directors of the company until shareholders formally appoint them. Casual vacancies in the board may be filled up by the board of directors, but the person so appointed must be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed, was last appointed.

The Indian Companies (Amendment) Act of 1936 also lays down that if, in the case of any company, a provision is made by the articles or by any agreement entered into between any person and the company or empowering a director or manager of a company to assign his office as such to another person, any assignment of office made in pursuance of the said provision shall notwithstanding anything to the contrary contained in the said provision be of no effect unless and until it is approved by a special resolution of the company.

Alternate or Substitute Directors

However, the exercise by a director of a power to appoint an alternate or substitute director to act for him during an absence of not less than three months from the district in which meetings of the directors are ordinarily held, if done with the approval of the board of directors, shall not be deemed to be an assignment of office within the meaning of this section.

Of course, any such alternate or substitute director shall *ipso facto* vacate office if and when the original director returns to the district in which the meetings of the directors are ordinarily held. It will be therefore seen that temporary appointments of alternate or substitute directors do not constitute an assignment of office within the meaning of this section, when made with the approval of the board of directors.

Debenture Directors

There are also cases where debenture holders or some other outside body are empowered to nominate directors, and in such cases the nomination of such body will in itself be sufficient and no further act on the part of the company will be necessary. If, however, the arrangement is that this outside body is to nominate and the company is to appoint them, then the appointment by the company will be necessary.

Vacation of Office by a Director

The office of a Director may be vacated by (*a*) his failure to acquire qualification shares within the prescribed time, (*b*) his becoming of unsound mind, insolvent, (*c*) his failure to pay call money within 6 months of call, (*d*) his accepting any office of profits, loans or contracts with the company, (*e*) his being absent from three consecutive meetings of the Board of Directors or being absent for three months whichever is longer without the consent of the Board and (*f*) his being convicted of a criminal offence against the company.

Removal of a Director

Though a director may be appointed by shareholders in a general meeting, he can only be removed by an extraordinary resolution.

Remuneration of a Director

A director's remuneration, if any, is defined by articles of association, and must be disclosed in the prospectus.

Powers of Directors

The powers of the directors are defined by articles in conformity with the Indian Companies Act. They act as a body collectively by means of resolutions passed in the Board meeting. They cannot delegate their powers unless articles of association so permit. Generally, articles provide for delegating certain special powers to a selected director, known as a Managing Director. The decision of the directors cannot be superseded by the shareholders in a general meeting, though powers given to directors may be altered by shareholders through modifying the articles by a special resolution. A director is a trustee of the company ; he acts in a fiduciary capacity. He must act honestly and diligently in the interests of the company.

If directors commit any act which is beyond their power, *i.e., ultra vires,* they are personally liable for losses if any. The shareholders or the company, however, may ratify the act in case the same is *intra vires* to the company. The first auditors of the company are appointed by the board of directors and the casual vacancies in this connection are also filled in by them, subject to confirmation of the company at the general meeting.

The Board of directors can enter into contracts in behalf of the company and that regarding these contracts, they are not personally liable so long as they do not exceed their authority, and are not negligent. Of course, if they give a personal guarantee with respect to any of the agreements, they would be liable on such a guarantee. With regard to their

exceeding their authority it may be pointed out that if directors apply the company's money for an object other than that for which the company is incorporated, they would be personally liable to make good the amount. In case a director signs bills of exchange which do not bear the company's name, he becomes personally liable. Directors who sanction payments on behalf of the company, ought to see that these payments are properly made. They are, however, not responsible for misconduct of their co-directors, or of other persons employed by the company.

Directors must see that a general meeting is held within eighteen months from the date of its incorporation, and thereafter once at least in every calendar year and not more than fifteen months after the holding of the last preceding general meeting.

Directors cannot enter into contracts with their company for their own interests unless articles of association otherwise provide for. The reason is that here they are in a fiduciary position, and their interests are in conflict with their duties. In practice almost all companies now provide for this power in their articles. The Indian Companies (Amendment) Act, 1936, further lays down that in case of certain specific contracts by a director with the company such as those for sale or supply of goods and materials, consent of directors has to be obtained. It is also laid down that the directors of a public company or of a subsidiary of a public company shall not, except with the consent of the company concerned in general meeting, (*a*) sell or dispose of the undertaking of the company or (*b*) remit any debt due by a director. Directors who wrongfully take benefit of a contract with their company, must indemnify the company.

Generally directors do not bring with them any special qualifications for their office, but they are bound, while acting as directors, to act with such care as can reasonably be expected of them, having regard to the knowledge and experience they happen to possess. In this connection the Indian Companies Act, sec. 281 as amended by the Indian

Companies (Amendment) Act of 1936, gives a certain amount of protection to the directors, managers, managing agents, officers and auditors of the company. It is laid down that if, in any proceeding for negligence, default, breach of duty or breach of trust against directors, managers, managing agents, officers and auditors of a company, it appears to the Court on hearing the case that though the person is or may be liable in respect of negligence, default, breach of duty or breach of trust, he has acted honestly and reasonably, the Court may relieve him, either wholly or partly from his liability on such terms as the Court may think fit. It is also provided that where any person to whom this section applies has reason to apprehend that any claim will or might be made against him in respect of any negligence, default, breach of duty or breach of trust, he may apply to the Court for relief and the Court on any such application shall have the same power to relieve him as under this section it would have had if it had been a Court before which proceedings against that person for negligence, default, breach of duty or breach of trust had been brought. Except as provided in this section (S. 86C), any provision, whether contained in the articles of a company or in any contract with a company or otherwise, for exempting any director, manager or officer of the company or any person (whether an officer of the company or not) employed by the company as auditor from or indemnifying him against any liability which by virtue of any rule of law would otherwise attach to him regarding any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to the company shall be void:

Provided that—

(*a*) in relation to any such provision which is in force at the date of the commencement of the Indian Companies (Amendment) Act, 1936, this section shall have effect only on the expiration of a period of six months from that date, and

(*b*) nothing in this section shall operate to deprive any person of any exemption or right to be indemnified

in respect of anything done or omitted to be done by him while any such provision was in force, and

(c) notwithstanding anything in this section a company may, in pursuance of any such provision as aforesaid, indemnify any such director, manager, officer or auditor against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted, or in connection with any application under section 281 of this Act in which relief is granted to him by the Court.

Loans to Directors

The Indian Companies (Amendment) Act of 1936 expressly prohibits loans of any kind to a director other than a director of a banking company or that of a private company. It is laid down that no company shall make any loan or guarantee any loan made to a company or to a firm of which such a director is a partner or to a private company of which such partner is a director.

It is also provided that where the above provision is contravened, any director who is a party to such contravention shall be punishable with fine which may extend to rupees five hundred and if default is made in repayment of the loan or in discharging the guarantee he shall be liable jointly and severally for the amount unpaid.

Prosecution of Delinquent Directors

Under the old Act there was no power given to the Public Prosecutor to launch a prosecution against delinquent directors. The result was that liquidators either in voluntary or compulsory liquidation had to institute proceedings on their own responsibility and finance same out of the assets of the company concerned. In many cases the creditors who had already lost money, were naturally reluctant to waste anything further on prosecutions and in consequence, the delinquent directors and officers escaped, unpunished. On recommendation of the Greene

Commission, however, the English Act of 1929 introduced provision by which the delinquent directors could be prosecuted at public expense, and these provisions have since been copied by our Indian Companies (Amendment) Act of 1936.

It is now provided that where it appears to the Court, in course of a winding up, that any past or present director, manager or officer, or any member of the company has been guilty of any offence in relation to the company for which he is criminally liable, the Court may, either on application of a person interested, or on its own motion, direct the liquidator either to prosecute the offender himself, or to refer the matter to the Registrar. The same course is open to the liquidator in voluntary winding up ; and the Registrar, if he thinks that the case is one in which a prosecution should be instituted, shall place the papers before the Advocate General or Public Prosecutor, and, if advised to do so, institute proceedings. Of course, in course of prosecution the liquidator has to furnish all possible assistance to the Public Prosecutor. It is also provided that the Registrar should look into the matter in the first instance and then refer the matter to the Public Prosecutor or the Advocate General.

Bankrupt Directors, Managers and Managing Agents

It is laid down specifically by sec. 86A in addition to the provision of disqualification as provided for by sec. 86(1) (*c*) that in case an undischarged insolvent acts as director or managing agents or manager of any company, he shall be liable to imprisonment for a term not exceeding two years or to a fine exceeding Rs. 1,000 or to both.

Office of Profit held by Directors

It is provided by section 86E that no director or firm of which such director is a partner or private company of which such director is a director shall, without the consent of the company in general meeting, hold any office of profit under the company except that of a managing director or manager or a legal or technical adviser or a banker. The only excep-

tion is that nothing herein contained shall apply to a director appointed before the commencement of the Indian Companies (Amendment) Act of 1936 in respect of any office of profit under the company held by him before the commencement of this Act. For the purpose of this section, however, the office of a managing agent is not to be considered to be an office of profit under the company.

MEETING OF DIRECTORS

It should be noted that directors must act at a board meeting and an act of a single director shall not be binding on the company. When they act as a board, the requisite number to form a quorum must be present. Powers of directors depend upon articles of association.

They must do the work assigned to them, and cannot delegate powers unless the articles give them the power to delegate. This delegation is generally done through formation of committees to whom this work is delegated. Each and every director must be given the notice of board meeting at their registered address. If this notice is omitted in case of any director or an attempt is made to exclude him in any way, the whole proceeding at the meeting may be declared void. In case of the quorum, the persons present must be competent to transact business and to vote. Generally the articles fix the quorum of the board of directors failing which, a majority of directors will be competent to act. This majority may fix the quorum at their first meeting if they so desire. A director who is disqualified from voting at a director's meeting is not necessarily disqualified for that reason from voting in his capacity as a shareholder, at a shareholders' meeting.

The board meetings should be presided over by a chairman. Generally in joint stock companies, the chairman is a permanent officer. The duties and powers of the chairman of board meetings are generally similar to those of chairman.

The general practice is to assign a special clerk to note the attendance of each director.

The general business transacted at a directors' meeting is that of the management of the business of the company, forfeiture of shares, making of calls, passing of transfers and accounts, recommendation of dividends, appointment of officers, appointment of committees, etc.

A director is not responsible for acts done in a broad meeting at which he was not present.

He is not liable for any errors of judgment. His duties are of an intermittent nature, to be performed at periodical board meetings, and he is not bound to give continuous attention, although it is not compulsory that a director should attend every meeting he is reasonably expected to do so.

A director has the right to inspect and take copies of the minute book of directors.

If the directors speak honestly and without malice, while discharging their duties and discussing the affairs of the company, they will not be liable for any defamatory statement which they make at board meetings.

Meetings of a Company

Two kinds of meetings are generally held, namely, (*a*) meetings of the Board of Directors, and (*b*) Shareholders' meetings.

Meetings of a Board of Directors

Articles of Association provide for holding meetings of directors. If not, then Table A of the Indian Companies Act applies regarding such meetings. Generally, a notice of such meetings must be given to a director. If articles provide for meetings at regular periods and times, no notice is necessary. A director may requisition a meeting at any time. A notice need not say what business is to be transacted in a meeting.

Meetings of Shareholders

There are three kinds of shareholders' meeting, namely, (*a*) Statutory meeting, (*b*) Annual General meeting, and (*c*) Extraordinary General meeting.

Preparation and Work regarding Shareholders' Meeting

In a newly incorporated company the first meeting for which a secretary will arrange is the statutory meeting. The preparation consists of drafting of a report called the statutory report.

Notice *re*: Statutory Meeting.—The Notice convening the Statutory Meeting is generally made out in the following form :—

The......................................Co., Ltd.

NOTICE OF THE STATUTORY MEETING

Notice is hereby given that the Statutory Meeting of the above Company pursuant to Sec. 77 of the Indian Companies Act, 1913, will be held at the Registered Office of the Company at.., at......P.M. (S.T.) on.............., the.......................

Calcutta, ...1945.

By order of the Board,

Secretary

Statutory Meeting

Every public limited company must hold a statutory meeting within a period of not less than one month from the date of the commencement of business and not more than six months of such date.

Directors of a company are obliged to circulate to each shareholder a statutory report and to file the same with the Registrar of Joint-stock Companies within at least 21 days before the date of the meeting. Such a report should contain (*a*) the allotted number of shares, (*b*) cash received, (*c*) an abstract of receipts and payments up to date 7 days of the report, (*d*) names, addresses, descriptions of directors, auditors, managing agents, etc., (*e*) an account of the preliminary expenses of the company, (*f*) modifications of any contract to be submitted to shareholders for approval, (*g*) arrears on calls, (*h*) names of members of the company and shares held by each

and (*i*) commission paid as brokerage on sales or shares. In case of default in holding the meeting in time, any shareholder, a creditor, the Registrar or the Court may apply for the winding up of the company after the expiry of 14 days of the last date of such a meeting.

The object of such a meeting is to acquaint the shareholders with names, descriptions and addresses of all other members of the company. A shareholder can discuss in such a meeting any information regarding the company.

FORM XXIV

Statutory Report

THE INDIAN COMPANIES ACT

(See Section 77 of the Indian Companies Act)

Filing fee Rs. 3.

Statutory report of the..............Company, Limited, to be certified 2, and filed pursuant to section 77(5).

Presented for filing by..............................

The Directors report to the members as follows:—

1. The total number of shares allotted is.......................
2. Out of the said shares...
   (a) the number allotted subject to payment therefor in cash is.......................................
   (b) the number allotted as fully paid up is..............the consideration for which they have been allotted is................ ....
   (c) the number allotted as fully paid up otherwise than in cash to the extent of Rs...............per share is....................the consideration for which they have been so allotted is..........................

3. The total amount of cash received by the company in respect of the shares issued subject to payment therefor in cash is..........................(and on the shares issued partly for cash is...............) : and the Company has received no cash in respect of the said................shares issued as fully paid up.

4. The receipts and payments accounts of the company made up to the..............day of..................last (i.e., a date within 7 days of the date of the report) are as follows:

	Particulars of receipts.	Particulars of payments.
From Shares Preference		
Ordinary		
From Debentures ..		
From Debenture Stock		
From other sources ..		

5. The following are the particulars as to the balance remaining in hand as on the said.................day of..............

Cash in hand ..
Cash at the bank
Etc., etc. ..

6. The following is an account (or estimate) of the preliminary expenses of the company:—

7. Names, addresses and descriptions of the Directors, Auditors (if any), Managing Agent and Managers (if any) and Secretary of the Company:—

DIRECTORS

Name	Address	Descriptions

AUDITORS

Name	Address	Descriptions

MANAGING AGENT AND MANAGERS

Name	Address	Descriptions

SECRETARY

Name	Address	Descriptions

8. Particulars of any contract the modification of which is to be submitted to the meeting for its approval together with particulars of the modification or proposed modification:—

9. The extent to which underwriting contracts, if any, have been carried out.

10. The arrears, if any, due on calls from directors, managing agents and managers.

11. The particulars of any commission or brokerage paid or to be paid in connection with the issue or sale of shares to any director, managing agent or manager or if the managing agent is a firm, to any partner thereof, or, if the managing agent is a private company, to any director thereof.

Dated the day of 19 .

We hereby certify this report.

Two Directors

I hereby certify this report.

Chairman of the Board of Directors

We hereby certify that so much of the report as relates to the shares allotted by the company and to the cash received in respect of such shares and to the receipts and payments of the company is correct.

Dated.................. *Auditors*

Annual General Meeting

Every company must hold its first annual general meeting within 18 months of its incorporation, and thereafter at least once in a calendar year, and at intervals of not more than 15 months. The Court may order holding of such a meeting on the application of any member in default of such a meeting. The annual audited balance sheet, profit and loss accounts or income and expenditure account as the case may be, made up to a date within 9 months of the meeting must be submitted before such a meeting. Copies of these documents must be sent to every member and filed with the Registrar at least 14 days before such a meeting. In the meeting the directors are to submit a report on the working of the company, and their recommendations regarding dividends, reserve funds, etc.

NOTICE FOR THE ANNUAL GENERAL MEETING

THE.......................................COMPANY, LIMITED.

Address...................................

Dated the..

Notice is hereby given that the .... Annual General Meeting of the above named Company will be held at.................... on the .... day of ....19 , at .... o'clock, to receive and consider the Directors' Report, Accounts, Balance Sheet and Auditors' Report thereon, to elect Directors and Auditors, to sanction the declaration of Dividends and to transact other ordinary business of the Company.

Notice is also given that the transfer book of the Company will be closed from the .... to the .... 1941, both days inclusive.

To......................

By order of the Board,

....

Secretary

Extraordinary Meeting

An extraordinary general meeting of a company, may be called by directors or shareholders. Shareholders holding not less than 1/10th of the issued capital of the company upon which all calls due are paid may send a requisition duly signed by them to directors to call such an extraordinary general meeting. If directors fail to convene it within 21 days of such a requisition, the shareholders may themselves call the meeting, but at least within 3 months of such a requisition. In such a case requisitionists are entitled to reasonable expenses incurred for the same.

Creditor's Meeting

The Court may order a meeting of creditors of a company to discuss matters for the winding up of a company, or in case where a compromise is attempted to be reached amongst creditors, company and its members. The Official Liquidator may requisition such a meeting at the instance of creditors, representing at least 1/10th in value.

Quorum

It means "the fixed number of members of anybody whose presence is necessary for the proper and valid transaction of business". Without a quorum, any decision of a meeting is invalid. The Indian Companies Act provide for a quorum at 5 and 2 in case of public and private companies respectively, unless it is otherwise provided for in the articles of association.

Chairman

Unless otherwise provided, a meeting can select anybody as its Chairman, when there is a quorum. His duty is to regulate speeches and decide points of order. He declares result of voting. His decision is final, unless otherwise decided by the Court. He has power to adjourn a meeting.

Vote and Poll

Everybody who is a member has a right to vote.

When a member present in a meeting thinks that voting by show of hands is unsatisfactory, a poll may be demanded.

A poll must be demanded at least by 5 members, Chairman, or a member holding at least 1/10th of the issued capital of a company, immediately before or after the declaration of the result by the Chairman. On a poll the absent members may also vote by means of proxies.

Proxy

It is an instrument duly signed by a shareholder, authorising another member to vote on behalf of the former. It must be duly stamped and submitted to the Registered Office of the company at least 72 hours before a meeting in order to be valid.

PROXY FORM

I .... being a shareholder of THE .... COMPANY, LTD., hereby appoint .... of ....
....
to vote for and on my behalf at the ANNUAL GENERAL MEETING of the above Company to be held on the .... 19 , and at any adjournment thereof.

dated this .... day of .... 19 .

Affix one two-anna Stamp	Signature .... Address ....

Witness——
Address——

N.B.—Shareholders are particularly requested to send in their Proxy Forms duly stamped and filled up in proper time in case they are unable to be present personally at the meeting.

Resolutions

Motion refers to a proposal put before a meeting, while resolution to one passed by it. There are three kinds of resolutions, namely, (a) *Ordinary*, (b) *Extraordinary*, and (c) *Special*.

Ordinary Resolution

It refers to a resolution passed by a simple majority of members present in a general meeting. It deals with ordinary business, like passing the accounts, declaring dividends, electing directors, etc. Notice of such a resolution is not required, if articles of association do not so provide for. But notice of a resolution to be proposed in a statutory meeting must be given.

Extraordinary Resolution

An extraordinary resolution must be passed by at least ¾ths of the members present in person or by proxy in a general meeting, and a due notice of such a resolution to be proposed must be given. Such a resolution must be passed in the case of voluntary winding of a company on the ground of its inability to continue business on account of liabilities. Unless articles of association otherwise provide for, an extraordinary resolution is not required for transacting any extraordinary business. A copy of the resolution is to be sent to the Registrar.

Special Resolution

It refers to a resolution of which 3 weeks' notice is given, stating along with the notice the proposed resolution. A majority of at least ¾ths of the members is necessary for it. A copy of such a resolution must be sent to the Registrar within 14 days of its adoption. A special resolution is required to alter articles and memorandum, to sub-divide shares, to change the name of the company, to wind up voluntarily or through Court, or for any other matter laid down by articles of association or by the Indian Companies Act.

Balance Sheet, Auditor's and Director's Reports

Directors of a company shall get the accounts made, and a balance sheet along with a profit and loss account prepared, up-to-date within 9 months of the annual general meeting, and duly audited by a registered auditor, and lay these before the annual general meeting. Copies of balance sheets must be

circulated to each shareholder at least 14 days before the meeting. Auditors may attend such meetings to explain accounts.

After placing the balance sheet before the annual general meeting, a copy of it duly signed by the secretary or any authorised Officer of the company, must be filed with the Registrar with a copy of the annual list of members and summary under sec. 32 of the Indian Companies Act.

Along with the balance sheet, the directors submit a report to shareholders stating the position and prospects of the company, recommending dividends, if any, any sum to be carried to the reserve fund, or any other matter.

DIRECTORS' REPORT TO BE SUBMITTED WITH BALANCE SHEET AND PROFIT & LOSS ACCOUNT

To The Shareholders,

The..........................Tea Company, Ltd., Calcutta.

Gentlemen,

Herewith we beg to submit the audited balance sheet of the Company with the profit and loss account for the year 1940. In March last we issued the Annual Report for the year ended 31st December, 1942, and in the meantime there has been very little change in the state of the Company's affairs.

The tea market continues to be dull but there is an optimistic undertone due to export of 80,00,000 lbs. of tea to Russia a few weeks ago and the prospect of imposition of preferential duty on Empire grown tea in the ensuing British Budget. If the Russian transaction leads to continued import of tea into Russia, there is a likelihood of the tea industry having better days.

In 1942 the Company's garden produced a crop of 8,400 lbs. of tea. The expectation for the current year is 14,000 lbs.

No extension of the garden has been made during the year under report. In order to increase the output of the garden, extension of the plantation is necessary and this is not possible

without further pair-up capital. The shareholders are, therefore, requested to be prompt in sending their payments of the instalments of share capital lately called up.

As will appear from the attached balance sheet, the company could not make any profit during the year, and hence no question of dividend or reserve arises.

Under the articles of association three of the seniormost Directors Mr................, Mr...............and Mr.................. retire. They have offered themselves for re-election. Messrs. ....auditors have also sought reappointment.

...................., Calcutta.

The .... of April, 1942.

Chairman,
Board of Directors.

CHAIRMAN'S ADDRESS AT AN ANNUAL GENERAL MEETING OF THE STEAM NAVIGATION COMPANY

Strong Financial Position

The one hundred and fourth Annual General Meeting of the Steam Navigation Company was held on December, 1944, at Leadenhall Street, London, E.C.

Mr. ...., Chairman, who presided, said: I am sorry that so long as the war lasts and all our ships continue under requisition to Government it is not possible to furnish details of the year's operation; but when peace comes we shall hope to be able to return to more normal procedure and give a resume of the Company's affairs.

The lifting, in part, of the censorship regulations since the printing of our report does, however, permit me to tell you a little about events in the early years of the war, in which some of our ships were concerned.

As you would expect, all our passenger vessels were transferred to war service either immediately before or very soon after the outbreak of hostilities, some as auxiliary war ships and others as transports. The epic struggle of the armed

merchant cruiser against overwhelming odds is well known to you all, and it was also reported in the Press at the time that the .... was sunk while on similar duty.

Our fleet was well represented in the Allied landing in North Africa, which contributed so much to the successful campaign in the Mediterranean.

With such a hazardous operation it was only to be expected that losses of ships would occur and we have to deplore the sinking by the enemy of several fine vessels.

High Traditions

The officers and members of the crews of our ships engaged in the landing lived up to the highest traditions of the Mercantile Marine, exposed as they were, at times, to heavy enemy attack, and we were indeed fortunate that our losses of men and ships were not greater.

A number of our personnel have received well-deserved decorations for their bravery and devotion to duty in this and other subsequent operations, and I would like to give you two instances from the many outstanding deeds I could quote. In one case two cadets, of one of our cargo ships torpedoed in a fierce gale in the North Atlantic in winter, managed by skilful seamanship to keep a lifeboat afloat for nine days until the survivors, who numbered seven only out of an original 38, were rescued by a Catalina flying-boat. Both lads received the George Medal.

The second case refers to a junior engineer in charge of a lifeboat from another of our vessels torpedoed in the Atlantic, who safely brought 19 survivors to land after 14 days adrift in bad weather, for which he was awarded the M.B.E.

Post-war Problems

The nearer the end of the war approaches, the more must one's thoughts turn to our post-war activities, and the many problems with which this Company will be faced in reinstating services which have had to be temporarily relinquished in a total mobilisation of men and material for war.

I can assure you that earnest consideration is being given to this matter with a view to ensuring that, when the time arrives, the Company shall take its rightful place in the world-wide trade routes in which we have been interested for more than a century.

It will be an essential condition of the re-establishment of the British Mercantile Marine to a healthy state that British shipowners should not be placed in a less favourable position than foreign lines, and in this respect it is encouraging to see that the British Government has this important aspect in mind.

Distribution Maintained

It will be noted from the accounts that after certain allocations made by the Board, the balance at the credit of the appropriation account, including the sum of £189,456 brought forward from the previous year, amounts to £442,267.

Interim dividends were paid in May last of 2½ per cent. on the Preferred stock and 2 per cent. on the Deferred stock, and it is now proposed that the following final dividends be paid, subject to deduction of income-tax:—2½ per cent. on the Preferred stock, 3 per cent. on the Deferred stock and a bonus of 3 per cent. on the Deferred stock. The distribution proposed is the same as that agreed in respect of the previous year.

The Company is in a strong financial position, but I would point out that we have a very considerable building programme in front of us to reinstate our fleet, and present indications are that prices of new ships will be exceedingly high. We shall, therefore, need all the liquid resources we have to meet our new tonnage requirements, and satisfactory as they are they may well prove inadequate. Ships are our stock-in-trade, and it must be our first consideration to get our fleet back to an efficient and economic unit.

The Chairman concluded by moving the adoption of the report and accounts, which was seconded by Mr. .... and carried unanimously.

The recommendations as to dividends and bonus were

approved; the appointment of Mr. .... as a director was confirmed.

Sir .... proposed a cordial vote of thanks to the Board, the executive and all the personnel of the Company.

Sir .... seconded the vote, which was cordially approved and the Chairman having briefly acknowledged the compliment, the proceedings terminated.

Books and Files

In addition to other necessary books and files, any joint-stock company limited must keep according to the Companies Act the following statutory books and registers, namely, (1) *Register* of members, containing the annual list of members and summary of capital and shares under sec. 32 of the Companies Act, (2) the *Index* of members, (3) *Register* of transfer of shares, (4) *British Register* of members, (5) *Minute Book* for general and directors' meetings, (6) *Register* of directors, managers and managing agents, (7) *Register* of contracts in which directors are interested, (8) *Register* of mortgages and charges, (9) *Register* of debenture-holders and (10) *Account Books* under sec. 130 of the Act.

Forms of Minutes

Minutes of meetings are recorded in the *Minutes Book* during the progress of the meeting. Very often only notes are taken first, and then fair copies are made. The draft book is initialled by the Chairman at the end of the meeting, and the fair copy is signed by the Chairman of the subsequent meeting, and the Secretary.

"Present:—(Here put the name of the Chairman first).

"Mr. .... in the Chair.

"The notice convening the meeting was read by the Secretary.

"The Minutes of the General Meeting held on .... of ...., were then read out by the Secretary, confirmed by the meeting, and signed by the Chairman.

"The report of the Directors, and the Statement of the accounts and audits of the Company were unanimously agreed to on the Motion of Mr. .... and seconded by Mr. ....

"Upon the Motion of the Chairman, seconded by Mr. ...., it was unanimously resolved that Mr. .... be, and, he is hereby declared, elected a Director of the Company in place of Mr..........................., who has resigned".

It is customary to pass a vote of thanks to the Chair before closing the meeting, and this, too, will be recorded. It is not actually necessary, but is sometimes done, to add a note of the time the Meeting lasted, thus: "Duration of Meeting, 1 hour".

If an amendment be moved after the seconding of any motion, it will appear in the Minutes somewhat as follows:—

"It was moved by Mr. .... and seconded by Mr. ...., that the Report and Accounts be adopted.

"Thereupon an Amendment was moved by Mr.................. and seconded by Mr. ...., that (then appears the amendment from the terms of the paper handed over to the Chairman).

"This amendment was put before the Meeting by the Chairman and rejected.

"The original proposition was then put and carried, the numbers being .... for and .... against".

The various motions and resolutions should be entered in the following form:—

"It was moved by Mr. ...., seconded by Mr. ...., and resolved, that" (here follow the terms of the Resolution). If the Resolution is passed unanimously or without any dissent, the word, "unanimously", may be inserted.

FORM OF NOTICE OF A BOARD MEETING

The .... Company, Limited,

Calcutta, 20th March, 1945

Dear Sir,

I beg to inform you that a meeting of the Directors of the Company will be held at the Registered Office of the Company on Monday the 20th instant at 4 p.m. when your presence is requested.

Yours faithfully,

Secretary.

To

Mr. ....

.... Road,

Calcutta.

The following business is to be transacted :—

(1) Purchase of Lands,

(2) Miscellaneous.

The Agenda.—The secretary should see that the board room is properly arranged on the date fixed for meetings and all relevant figures, documents, papers and books, are kept on a side-table. He should prepare the agenda, i.e., the list of business to be done at the meeting. The items on the agenda should be arranged in order of importance, preferably in consultation with the chairman or one of the most active directors. This agenda may be prepared on loose sheets of foolscap paper, a copy of each of which is placed in front of the seat of each director. The secretary must see that his own notes of the proceedings are accurate.

Form of the Agenda.—The form of a board meeting agenda varies according to the nature of the business which is placed before the board at each meeting. The first and the last item of the agenda invariably recur in almost every board meeting agenda, except that of the first meeting, viz. "Read minutes

of the previous meeting", and "Fixing of the date of the next meeting". The agenda of the first board meeting of a limited company generally appears as follows:—

Agenda

Board Meeting, Monday 20th March, 1945, to be held at the Registered Office of the Company.

(1) Incorporation of the company and legal adviser to report on same.

(2) Election of Chairman.

(3) Appointment of officers, viz. the secretary, the manager and the accountant.

(4) Approval of draft prospectus.

(5) Fixing of the date of the next board meeting.

Another Specimen of Agenda

of

Board Meeting, 1st February, 1945, to be held at the Registered Office of the Company.

(1) Minutes of the last meeting.

(2) Bank pass book and cash account as prepared by the accountant to be submitted for approval.

(3) Trading returns for the quarter as prepared by the general manager to be submitted.

(4) Election of Mr.   as director of the Company to be considered.

(5) Purchase of a factory to be considered.

(6) Miscellaneous.

(7) Date of the next meeting.

The Minutes.—At the close of a meeting, or as soon after as possible, the secretary should proceed to draft the "minutes" of the meeting. Care should be exercised to see that the draft represents as accurate a record as possible, because, when the minutes are once passed and signed by the chairman of the same or of the subsequent meeting, the minutes constitute *prima facie* evidence of the proceedings. In accordance with the Indian Companies Act, "every company shall cause minutes

of all proceedings of general meetings and of its directors to be entered in books kept for that purpose". It is also provided that "until the contrary is proved every general meeting of the company, or meeting of directors in respect of the proceedings whereof minutes have been so made, shall be deemed to have been duly called and held, and all proceedings had thereat to have been duly had, and all appointments of directors or liquidators shall be deemed to be valid." The law insists on at least one minute book being kept, though in actual practice it is found convenient to keep separate books not only for the board and shareholders' meetings respectively, but in cases where the board is divided into committees, a separate minute book is also maintained for each committee. The general minute book is open to inspection of members; but the directors' minute book which registers the proceedings regarding the internal management, is not open to members. The minutes books should be made of faint ruled foolscap papers, with a broad margin on the left, and an alphabetical index at the beginning or at the end. Each minute entered in these books should be consecutively numbered, abbreviated in the margin and indexed. The minutes are to be written in the order in which business was done at the meeting. Minutes are written in various forms, the best form includes the narration as well as the conclusions. It should be noted here that minutes must be accurately and clearly recorded.

The minutes of each meeting should be recorded separately, *i.e.* each minute should state what actually commences on fresh page. The narration should express what actually occurred, and which should be concluded with the resolution, if any, passed. This resolution should be recorded in full in the exact wording in which the same was passed. Very often a secretary is required to draft resolutions passed at board or general meetings.

The minutes are *prima facie* evidence, until the contrary is proved, to the effect that the meetings to which they relate were duly held and that the proceedings as recorded in them were accurate. After the minutes are confirmed and signed

the secretary has no right to alter them on his own responsibility.

The Minute Book

The 6th meeting of Board of Directors was held at the registered office of the company on Wednesday......................
at ...... p.m.

There were present:—

Mr. .... in the chair,
Mr. ....,
Mr. ....,
Mr. ....,

DIRECTORS

In attendance:—

Mr. ...., Secretary,
Mr. ...., Accountant,
Mr. ...., Manager

10. The minutes of the last meeting held on................., were read, approved as correct and signed.

11. *Cash Statements.*—The Secretary produced the bank pass book and a financial statement revealing an abstract of cash receipts and payments during the month .... ended ....1945. It disclosed a balance at the bank of Rs. ...., and on hand Rs. .... The statement was duly put and passed as approved.

12. *Trading Returns.*—The Trading Returns were placed showing a turnover of Rs. .... or Rs. .... higher than in the previous month. This was due to extra hours worked during the period. The returns with explanations were duly approved, and passed.

13. It was submitted by the works Manager that a new factory was purchased for Rs. .... with a view to supplement existing production. The purchase was approved and passed as sanctioned.

Resolutions

The minutes need not necessarily consist of resolutions in the usual form. There are, however, cases where formal re-

solutions are to be drafted, passed and recorded in the minute book. The following specimen resolutions are given :—

1. *Adoption of Draft Prospectus*—Resolved :—That the prospectus of the Company offering ...... Ordinary Shares of Rs. .... each for subscription as finally settled at this meeting and signed by the Chairman thereof be hereby approved and that such prospectus be published and circulated in accordance with the scheme which has been prepared by Messrs.........

2. *Allotment of Shares*—Resolved :—That ...... shares in the capital of the Company of Rs. ...... each be allotted to Mr. .... and that notice of such allotment be given to the said party by the Secretary indicating the allotment money payable by him.

3. *Appointment of an Agent*—Resolved :—That Mr. .... be and is hereby appointed agent of the office of this Company in ...... on a salary of Rs. ...... per month, for a period of ...... years, commencing form ...... and that Mr. .... the chairman and director, and Mr. .... the secretary, be and are hereby empowered to execute on behalf of the company, a power of attorney in favour of Mr. .... the said agents, in such form as the company's legal advisers may think necessay, to enable him to act in the capacity of the agent of...........

4. *Conversion of Shares into Stock*—Resolved :—That the sum of Rs. .... Ordinary Shares of Rs. .... each now fully paid up, be and are hereby converted into ordinary stock for Rs. .... which shall be transferable on the usual transfer form in any sum of Rs. .... or a multiple thereof.

5. *Appointment of a Committee*—Resolved :—That a committee consisting of Messrs. .... and .... the members of this board, be and is hereby appointed to investigate and report on the question of the desirability of opening a factory in ...., and to report to this board their opinion and recommendations on this question after proper enquiry.

6. *Forfeiture of Shares*—Resolved :—That ...... Ordinary Shares of Rs. ...... each with Rs. ...... paid up and numbered .... to .... inclusive held by Mr. .... be forfeited, he being in arrear with the second call of Rs. ...... made on the .... in spite of the notice served on his on......... in accordance with Clause ...... of the articles of association.

7. *Declaration of a Dividend*—Resolved :—That a dividend of ...... on each Preference Share, and of Rs. ...... on each Ordinary Share, be and is now declared out of the net profits of the company's business for the twelve months ended ...... being at the rate of ...... p.a. on the Preference Shares and ...... p.a. on the Ordinary Shares, and that such dividends shall be paid to the existing shareholders as on the register of shareholders on ....

8. *Alteration of Articles*—Resolved :—That the article No. .... of the articles of association of the company be altered by omitting the following words therefrom, namely :—

and substituting instead, the following words :—

9. *Making a Call*—Resolved :—That a second call of Rs. .... per share be made upon all the Ordinary Shares of the Company making in all Rs. ...... per share called up, the said call to be payable on or before ...., to the company's bankers, the Bank ...., Ltd., at their .... head office, and that the secretary is hereby instructed to issue the necessary call notices and arrangements with the company's bankers for the collection of call money.

10. *Appointment of a Committee for General Purposes*—Resolved :—That a committee of the following directors, *viz.*, Messrs. .... be styled the "general purposes committee", and that a quarterly report of such committee's proceedings be duly entered in a "general purposes committee minute book", to be specially provided for that purpose, and that such reports, when duly approved by the board, be considered as part of the minutes of the board, and read in conjunction therewith.

11. *Alteration of the Name*—Resolved :—That the name of the company be altered from the .... "to the..........." and that the Local Government be communicated with for the purpose of obtaining their consent to such an alteration.

12. *Passing of Transfers*—Resolved :—That the transfer applications Nos, ... (inclusive) be and are hereby passed and the seal be affixed to the new certificates, Nos, ... to ...... (inclusive) and that the names of the said transferee be entered in the register of members of this company.

13. *Closing of Transfer Books*—Resolved :—That transfer books of the company be and are hereby closed from ...... to ......, both days inclusive.

14. *Increase of Capital*—Resolved :—That the capital of the company be increased to Rs. .... by the creation of ...... new Preference Shares of Rs. .... each, to be called the new preference shares, and to confer on the holders thereof the right to a non-cumulative preferential dividend of ...... per annum on the capital, for the time being paid up on such share, to be paid out of the profits of each year, and such preference shares to rank both as regards capital and dividend in priority to the original shares in the capital of the company.

15. *Appointment of Finance Committee*—Resolved :—That a finance committee, consisting of three directors, *viz.*, Messrs. ....of which Mr. .... shall be the chairman, be and is hereby appointed to take effect from this day and to hold office for a period of one year from the date hereof ; and that the secretary is hereby directed that all propositions regarding outlay or expenditure, immediate or prospective, and all financial statements, *e.g.*, abstracts of receipts and payments prepared periodically as may be fixed by the said committee, or any other financial arrangement whatsoever, must be first submitted to the finance committee to be reported upon, before placing same before the board.

Secretary

A company requires a full-time officer thoroughly conversant with company law and practice in order to look after its

secretarial work. The general correspondence, supervision, maintenance of proper books, filing of returns, convening meetings, recording resolutions, registering transfer of shares, etc., are entrusted to the Secretary.

Functions of a Company Secretary

The "Company secretary" has come into prominence as an officer with specialised training in company secretarial practice and company law in order to look after secretarial work in connection with joint stock companies.

There are now avenues for specialised education for company secretaries with two prominent Professional Boards of England, each of which has formulated syllabuses exacting a very high standard of knowledge, *viz.*, (1) The Chartered Institute of Secretaries of London with which is now amalgamated the Incorporated Secretaries Association of London, and (2) the Corporation of Certified Secretaries of England.

The secretary is a full-time salaried officer who looks after the secretarial work of his company. His position is very confidential, as he is continuously in close touch with the work of the board of directors. The selection of this important official forms one of the principal steps in the early organization of a company. The choice in selection of this important official should fall on an expert with special training and experience in company work and practice, with a wide range of specialised knowledge in general affairs. He should also be able to control a large number of men, specialists as well as the general office staff, and should possess an impressive personality. He should be a person of honour and integrity and must not use his official position to his own advantage, or to that of his friends and relatives.

Duties At and Before Incorporation.—(*a*) To attend at all preliminary meetings convened and when required, to keep a record of proceedings of these meetings and help in the discussion and preparation of the Prospectus.

(*b*) To attend to all requirements of the Act regarding incorporation and registration and to see that the proper docu-

ments are filed. After incorporation he must call the first meeting of the board and get the necessary resolutions passed in connection with the election of chairman, if not so appointed by the articles, appointment of secretary, manager, accountant and other responsible officers, the disposal of the Incorporation Certificate and opening of bank accounts, the signature on cheques and other important documents, etc.

(*c*) To see that his own appointment is made and confirmed in a proper form by a proper resolution at the first meeting of the board.

(*d*) To see to the appointment of various sub-committees such as the transfer committee, the finance committee, works committee, etc.

(*e*) To obtain at the earliest opportunity a certificate entitling the company to commence business by filing the necessary papers and documents.

(*f*) To prepare within the time appointed and call the statutory meeting as well as get the statutory report prepared in due form.

Duties after Incorporation.—(*a*) To acquaint himself thoroughly with the contents of the memorandum and articles of association and regulations fixed by the board at its early meetings.

(*b*) To arrange meetings of directors, committees and members at intervals fixed by regulations, or otherwise, and get the proceedings recorded in proper minute books with indexes.

(*c*) To attend to the secretarial correspondence and exercise general supervision over the affairs of the company.

(*d*) To see that proper documents are sealed according to regulations in the presence of the required number of directors, under his own counter-signature.

(*e*) To look after that the incidents of applications, allotments, and calls on shares and debentures, as well as forfeiture of shares and also that the procedure as laid down by the regulations is strictly followed.

(*f*) To see that all documents are properly stamped and filed according to requirements of the companies Act.

Secretary's Office Work.—The Secretary is the principal executive officer of the company and as such he is to act as its agent and attend to all its correspondence and he has to carry out the instructions of the board of directors. The secretary is expected to exercise powers delegated to him and in matters of prime importance he is well advised to act in consultation with the board, chairman or the committee concerned. He is in charge of managing the office unless there is a specified manager appointed for the purpose, and should distribute work among different departments. In a newly incorporated company, the secretary generally looks after the filing of relevant documents, while in an established company he has precedents to follow and is expected to outline new improved methods. A secretary should be able to organise an office in an up-to-date way. It is generally the practice that all office correspondence should at first be opened in the secretary's office and then distributed to proper department. A secretary should obtain from the accountant from time to time the requisite data regarding purchase, sales, expenses, etc., indicating the progress of the firm and its financial position and it is his duty to place before the board of directors necessary figures for their consideration.

Among other duties, a secretary should look after the share transfer work of the company. He should see that all entries in the share transfer register are made properly.

The secretary should arrange for the meeting of directors according to the articles of association of the company. Proper notices regarding these meetings should be duly sent to every director, because it has been held that failure to send such notices to any director entitled to attend such a meeting will invalidate all business which is transacted at that meeting. To the notice convening a board meeting, a slip is usually fixed indicating the data of the meeting and the name of the director, and this slip every attending director is requested to hand over to the clerk at the entrance of the board room for convenience

of recording the directors' attendance in the directors' attendance book as well as in the board minute book.

In case where special committees of directors are appointed for specific investigations and objects, a Secretary is usually in charge of drafting the reports of such committees. In addition, a Secretary may be requested by the directors to enquire into any special matter and submit his report. In such instances, he should make a thorough investigation into the matter and submit his report along with relevant data and figures. Very often he is to prepare a summary of several documents in order to place it before the board of directors. He must prepare this very carefully, incorporating all important points and avoiding unnecessary details. This is done to help the board to expedite matters.

Chairman—The first business of a meeting is to elect a chairman except in case of a joint stock company, which has a permanent chairman, who, if present, takes the chair as of right. If, however, neither the chairman nor the vice-chairman is present, and the meeting consists of persons with equal right to preside, they will have to elect a chairman. This is done by any one present proposing the name of one of the members present, which proposal after being seconded may be put to vote. If more than one name be proposed and seconded, they will be put to vote simultaneously, and the person securing the majority of votes becomes the chairman of the meeting.

Necessary qualifications—A chairman of a meeting should be carefully selected. He should possess tact, patience and knowledge. He must be able to tackle difficult situations with skill, courage and tact.

Powers and Duties of the Chair—The duty of a chairman is to conduct a meeting in an orderly way, and he must see that the proper quorum is present and all members present are entitled to attend the meeting. The items of a meeting should be taken up in proper order. The chairman ought to see that none except the mover of a resolution is allowed a second speech, except by way of an explanation. Every body should be given an opportunity of expressing himself on the subject-matter of

discussion. It is his duty to put motions and resolutions to vote, and carefully scrutinise voting to ascertain the majority. The first business of every meeting is to call upon the Secretary to read the notice convening the meeting and the minutes of the last meeting are read, confirmed and countersigned by the Chairman. If necessary, he may address a meeting, and usually he opens a meeting with relevant comments. In case of annual general meetings of a public limited company, a Chairman explains the report and reviews the work of the company, covered by the period under question. A Chairman is entitled to enforce order. If any member does not behave properly, he may be asked by the Chairman to retire and may be even expelled by force if necessary, provided no more force is applied than what is actually required. If the Chairman is unable to maintain order, he has the right to adjourn the meeting. In some cases, his right to adjourn a meeting depends upon the constitution of a company concerned, and in instances where the Chairman has no right to adjourn a meeting, it can only be adjourned with the consent of the members present.

A chairman has the right of voting according to his qualification, *i.e.*, according to the regulations of the body whose meeting he is presiding over, and where votes are equally cast on an issue he has, in his capacity as a chairman, a "casting vote", by the use of which he may help the meeting to come to a decision. The chairman has thus generally two rights of vote, *viz.*, (1) his *deliberative* vote, which he gives in his capacity as a member of the body, and (2) the *casting* vote, which he gives in case there is a tie.

Passing of the Minutes—We have already noticed that the Chairman has to see that the minutes of the previous meeting are read out and confirmed at a subsequent meeting. This is done to ascertain whether the record of proceedings at the previous meeting, as prepared by the secretary, is accurate. Only those who were present at the meeting of which the minutes are considered, have a right to vote, as the absentees from the meeting concerned cannot claim a personal knowledge as to the proceedings. If the majority are in favour of accepting the

minutes as accurate, the chairman signs them. In case any member present raises an objection and wishes some part of the record to be altered, he should move an amendment to that effect. This amendment should be seconded and put to vote in the usual form. If passed, the chairman should instruct the secretary to give effect to the correction as indicated by the amendment.

Propositions and Amendments

After the preliminaries have been done, the chairman may call upon the person in whose name any proposition in the agenda stands, to move the same. Failing that, any one present may voluntarily rise to move a proposition ; and on his desiring to do so the chairman should announce that fact, with the name of the person concerned. In case of these propositions, and particularly in case of amendments, the rule to follow is to get these in writing from the movers, together with their signatures at the foot. A motion must always be framed in an affirmative form. A motion not seconded should be dropped, and no note of it should be taken in the minutes. On the other hand, once a motion is proposed and seconded, it becomes the property of the meeting, and neither the proposer nor the seconder has the right to withdraw the same without the unanimous consent of the meeting. The mover of a proposition, which is not seconded, has no right to speak on it. Where a motion is very long and the chairman considers that it should be dealt with after being sub-divided into two or more parts, he has the authority to do so. A motion duly proposed, seconded and lost, or any amendment on it which has shared the same fate, cannot be brought in again for at least three to six months, according to regulations of a large number of joint stock companies. The mover alone in his second speech in reply has to restrict himself to points raised in course of discussion of his motion by other members.

The Amendment—After a motion has been proposed and seconded, any one present may move an amendment. Amendments, like the motion, should be framed in an affirmative form.

These must also be relevant to the question raised by the proposition and should not make the original motion unintelligible. Amendments may be moved without notice, unless regulations of the body concerned provide for a previous notice. The amendment may be moved with a view either to "omit" certain words from the proposition, or to "add" or "substitute" these. A direct negative is not a legitimate amendment, and should not be allowed, because the party offering such a negative motion can attain his object by voting and speaking against the proposition. The person seconding a motion, or amendment, need not speak on it immediately after the proposer, but may do so at any time before the same is put to vote. Generally, more than one amendment cannot be moved on the same motion by the same person, unless special regulations of the body concerned allow such a procedure. An amendment may be moved on an amendment. When an amendment is proposed and seconded and all have spoken on it, the chairman puts it to vote. If lost, the original motion is taken in hand. If, on the other hand, the amendment is passed, the original motion, as altered by the amendment, is taken up and put to the meeting as a substantive motion.

The Closure—It may happen that discussions on any motion or amendment continue to prolong. In such an event, any one present who thinks that the mind of the meeting is made up, and that the motion should be put to vote without any waste of time may do so by proposing a "closure" to the effect that "the question be now put to vote." If seconded, the chairman should put it to vote, if he is satisfied that enough has been said from all sides, and that discussions are unnecessarily prolonged. If carried, no further discussion on the proposition, or the amendment, should be allowed.

If, however, the motion for closure is lost discussions must proceed. The other name of a closure is "the gag."

The Previous Question—When a proposition is moved and seconded, which some may consider unnecessary or unwise to discuss in the interests of the company, they may move what is called the "previous questions". The general method of putting

this proposition is "that this question be not now put." As soon as seconded, the chairman should put it to the meeting, because it takes precedence of all other motions. Although no amendment is allowed on this "previous question" it may be discussed, but it cannot be superseded by a motion for adjournment. The "previous question" should be put, either when the original proposition is before the meeting for discussion or after the amendment is passed and the amended motion is put before the meeting as a substantive motion. It should not be put during the course of the discussion of the amendment itself. The mover of this question has no right of reply.

Dilatory Motions—These motions or resolutions are moved with a view to prevent or delay the discussion, and are in order if moved in furtherance of the object for which the meeting has been called. The motion for previous question is one of these dilatory motions. Another dilatory motion may be to adjourn the meeting. The form of the resolution in such a case will be "that this meeting be now adjourned". A further form of dilatory motion may be moved to the effect that "this meeting do proceed to the next business". Here, the object of the mover is to drop the discussion of the motion which is before the meeting altogether. The adjournment may also pertain to the debate, instead of the adjournment of the whole meeting itself, and it may be moved as "that the discussion of the debate on this motion be adjourned to . . .". Then, the object of the mover is to adjourn or delay the debate to some future date. Only on this motion the mover of the resolution is allowed to speak.

Substantive Motion—When an amendment on a motion is carried, the chairman puts to the meeting the original motion, as modified by the amendment. This original motion, as amended, is called "the substantive motion".

LAW AND PROCEDURE AT THE MEETING

The chairman of a meeting has the discretion to decide as to the order in which speakers should speak. If two persons rise to speak, the chairman may call upon the one who rose

first to address the meeting. If they rose to speak simultaneously, the chairman may decide as to who should first address the meeting. This right of the chairman is subject to connivance of the meeting. If, however, the majority at a meeting express a desire to hear a particular person first, the chairman should act according to their wishes.

A speaker at a meeting should address the chair and deliver his speech standing. While so addressing he should not call the chairman by name, but should style him "Mr. Chairman". The person addressing should speak, as reading from manuscripts may be objected to by the meeting. The language used must be courteous, and not offensive or personal. Unnecessary repetition should be avoided. Except in committee meetings, no one has the right of a second speech except a mover of the proposition. If any one present finds that anything irregular is being done, or any objectionable language or a personal remark is being made, he may rise to interrupt the speaker with the remark "Mr. Chairman, I am very sorry to have to interrupt, but I must rise to a point of order, etc. . . ." and may give his arguments. The chairman's ruling one way or other on a "point of order" must be taken as final. In case the speaker is referring to something in a previous speaker's address, or to any other course of conduct about any one present, the party so referred to, may also rise and address the chair with the remark, "Mr. Chairman, I am sorry to interrupt, but as a matter of personal explanation I may state that . . . ." This personal explanation should be brief.

The chairman should see that as far as possible, he allows every member to exercise his right and that the minority is not bullied by the majority.

As soon as the chairman calls out "order, order" the meeting must obey. The person to whom the words are addressed must immediately take the hint, and the rest should support the chair. If the chairman proves to be unreasonable, lawful steps should be taken to remove him. Regarding the meeting, every member should submit to the disciplinary conduct of the chair.

FRACTIONAL CERTIFICATES ISSUED IN CONNECTION WITH BONUS SHARES

A company which builds up a large Reserve Fund through accumulation of profits frequently issues to its members "Bonus Shares" provided its Articles permit their issue. These Bonus Shares are virtually speaking capitalisation of the profits covered by the amount of the total issue. No Income Tax is charged on these Bonus Shares, and, therefore, the issue is made without deduction of this tax. The reason is that the profits taken from the Reserve Fund have been already taxed. Here supposing that 1,000 Bonus Shares are issued of Rs. 10 each on the condition that holders of 10 shares would be entitled to one Bonus Share. In practice there may be many shareholders who do not hold 10 shares, the procedure is that the company issues on each share a certificate known as a "Fractional Certificate". Thus members holding 10 shares may exchange their ten fractional certificates for one Bonus Share, whereas those who do not hold the requisite number have to purchase the balance of these fractional certificates in order to make up the requisite number and secure the Bonus Share. In case of others who do not desire to acquire the shares through purchasing fractional certificates may sell their own certificates on the Exchange.

Share Hawking

Previously in England highly speculative and worthless shares, or what were called units of shares, representing shares, or fractions of shares, were sold by offers made broadcast through letters or personal house to house "hawking", and in consequence several unsuspecting investors were led to purchase these to their loss. The law was thereupon amended and it is now unlawful for any person to go from house to house (except to business offices) offering shares for subscription or purchase. It also provides that any offer in writing to sell shares to any member of the public, who is not carrying on the business of buying and selling shares, shall not be lawful unless the said

offer is accompanied by a written statement which is dated and signed by the person making it, containing particulars as required by the Act, or in case of a company incorporated outside Great Britain, it should be accompanied by a perspectus which complies with the provisions of Sec. 93 of the Indian Companies Act, 1913, Sec. 35 and Parts I, II and III of Schedule Four of the New English Act of 1929. The provision of this section does not apply where shares which are thus offered are quoted on a recognised Stock Exchange in Great Britain, or the shares are those which a company has allotted, or agreed to do so with a view to their being offered to the public, or where the offer is made only to persons with whom the party making the offer has been doing regular business in purchase and sale of shares. Regarding companies not incorporated in Great Britain the above stated written statement should contain the following particulars:—

(1) Whether the person giving the offer is acting as principal or agent, and if the latter the principal's address in Great Britain.

(2) The date on which the company was incorporated and its registered and principal office in Great Britain.

(3) The authorized capital of the company and the amount for which it has been issued along with the classes in which it is divided and the rights of each class regarding capital, dividend and voting.

(4) Dividends, if any, paid on each class during the three financial years immediately preceding the offer, and if no dividend has been paid a statement to that effect.

(5) Total amount of debentures issued by the company if any and the rate of interest payable thereon.

(6) Names and addresses of the directors of the company and of persons occupying the position of directors.

(7) Whether shares are fully paid up or how much has been paid up.

(8) Whether the shares are quoted or are permitted to be quoted on any recognised stock exchange of Great Britain.

(9) Where the offer relates to units, particulars of the names and addresses of holders of such units.

(10) If any person acts, incites, causes or procures any person to act in contravention of this section, he will be liable to imprisonment or fine and any contract entered into by such a convicted person may be ordered by the Court to be null and void.

MANAGING AGENCY SYSTEM

Definition

In India the managing agency system has developed as an important method for managing public limited companies. Broadly speaking, managing agents undertake on behalf of the shareholders of a company to manage the affairs of the latter in return for certain remuneration. The Indian companies Act defines a managing agent "as a person, firm or company entitled to the management of the whole affairs of a company by virtue of an agreement with the latter, and under the control and direction of the directors except to the extent, if any, otherwise provided for in the agreement, and includes any person, firm or company occupying such position by whatever name called."

The Managing Agents originated in India during the latter part of the nineteenth century owing to the fact that they pioneered new industries in India ; they could alone supply to industries trained and efficient managers, and they also supplied industries with finance when capital was shy.

Functions

Generally, managing agents in India perform three main functions, namely, (*a*) they promote and pioneer new industries, (*b*) provide finance and (*c*) perform day-to-day management of a company like a manager or a managing director.

Statutory Recognition

Though managing agents must be credited with having established in India several successful industries, which even now they are managing, abuses cropped up in the system, which tended to fall into disrepute. These abuses continued in full swing till 1936, when the amendment of the Indian Companies Act statutorily recognised the system for the first time, and attempted to cut the powers of managing agents in such a way as to purge them of many ills, and keep them going with reasonable safeguards.

Powers and Functions

The Indian Companies Act defines their exact powers, prevents them from usurping all residual powers as they used to do before, and put them under the control of the Board of Directors. No new managing agents can remain in office for more than twenty years subject to re-instatement by the share-holders of a company, and existing managing agents cease to be in office at the end of twenty years notwithstanding any-thing contrary contained in previous agreements, subject to re-instatement as in the previous case. A company may remove a managing agent if he is convicted of criminal offences. Appointment, dismissal and variation in contracts of managing agency agreements are made dependent on shareholders. The remuneration of managing agents can only be stipulated as a certain percentage of net profits with a provision for minimum remuneration in case of inadequacy or absence of profits together with an office allowance. Any other emolu-ments must be sanctioned specially by the shareholders, and rules have been laid down for arriving at net profits. No company is allowed to give or guarantee loans to managing agents, nor inter-investment of funds is permitted, that is to say, managing agents, when controlling more than one com-pany cannot transfer or invest funds of one company to or in that of another under same management. Managing agents are prohibited from doing on their own account any business which is already done by any of their managed companies.

They cannot nominate more than one-third of the Board of directors of any company under their management.

Again, the amendment of the Indian Companies Act has further provided that no managing agency system can be allowed to function in the case of banks and kindred institutions. Managing agents are also forbidden to exist in the case of insurance companies by the Indian Insurance Act of 1938.

In spite of these various statutory safeguards, managing agents are often subjected to criticism, and constant propaganda is afoot to abolish the system altogether. It is rightly contended that whatever might have been their justification in the past, managing agents are now superfluous economic institutions, and the sooner they go the better. In view of the fact that other countries have successfully introduced democratic control of industries through shareholders by appointing paid managers, there is no reason why the same should not be done in India. Moreover, it cannot be gainsaid that already successful industries in India have grown up independently of managing agents, and so the indispensability of the institution is dubious.

Defects

In pointing out the economic drawbacks of managing agency firms a distinction ought to be made between European managing agency firms functioning mostly in Bengal, Behar and Assam, and Indian managing agents, who mostly prevail in Bombay and Ahmedabad.

It may be admitted without any reflection upon Indian firms, that European managing agency firms are more efficient and less expensive. They have, in addition, an inherent merit of taking in "outside talent" as partners in managing agency firms, especially on merit and industrial considerations. Most of them are not usually hereditary in character, and by thus recruiting outside experts, they can maintain continuity of policy and efficiency.

Indian managing agency firms are more or less strictly hereditary, and outsiders are rarely taken in as partners except

on urgent financial considerations. They are more expensive and inefficient.

It is also complained that managing agency firms, by controlling more than one concern doing same or different types of business, generally undergo undue strain and exertion. As a consequence, whatever is saved in administration costs is eaten up by inevitable inefficient management due to lack of attention. Besides, if managing agents control more than one concern doing same type of business, it may give rise to undue and unfair competition. Lastly, it should be noted that the danger of managing agency firm type of management consists in the fact that fortunes or misfortunes of managing agents are bound to affect the fate of a company under their management. A company which is doing well may go down, only because its managing agents may not be faring well. In addition, we should remember that managing agents when they speculate in the shares of their companies may so manipulate inside matters of those companies as to redound to evil results as far as the shareholders are concerned.

The managing agents have no links with the public. They have created a divorce between banks and the public, and the result is that banks cannot tap the public for money to utilise it in industries.

CONTROL OF CAPITAL ISSUE

It should be pointed out here that since 17th May, 1943, restrictions have been imposed on the issue of capital by limited companies under Defence of India Rules in order to check the growth of mushroom companies and this control of capital issue is likely to continue until normal conditions are restored. Under these rules it is now provided that no limited company can issue share capital for subscription exceeding Rs. 1,000 without the previous consent of the Central Government of India, which acts for this purpose through the Examiner of Capital Issue. It may also be noted here that originally the

re-issue by companies of shares previously allotted but forfeited could not be made without the consent of the Government, but now it is held that such a re-issue does not constitute an issue of capital. It is, therefore, not necessary to apply for consent of the Government to the making of such re-issues.

Questions

1. What is the relationship of shareholders in a public limited company to the following bodies of persons and what is the effective power and control over :—
   (a) The Board of Directors.
   (b) The Managing Board of Directors.
   (c) The firm of Managing Agents as found in India.
   (B. Com., Calcutta, 1925).

2 Draft a Director's report in connection with an annual meeting of the shareholders in case of a jute mill dealing with the various activities with which the mill is concerned and specially emphasising the need for further expansion. Imaginary figures are to be inserted in this report. (B. Com., Calcutta, 1930).

3. Write out a typical notice (including an appropriate agenda) for a company's shareholders' annual general meeting.
   (B. Com., Calcutta, 1936).

4. Discuss how far in India generally the control of directors over the management is effective and the responsibility of the directors to shareholders is real. Refer briefly to the part played by the system of managing agency in the development of Indian joint-stock enterprise. (M.A. Com., Calcutta, 1926).

5. Discuss the merits and demerits of the system of having the business of a joint-stock company conducted by a firm of managing agents. (B. Com., Bombay, 1927).

6. Draft notices for the following giving the number of clear days' notice required in each case :—(a) statutory general meeting, (b) meeting for the purpose of increasing the capital, (c) general meeting for the purpose of winding up of a company.
   (B. Com., Allahabad, 1926).

7. Draft an agenda of a meeting of directors of about five items and then proceed to write minutes on same in proper form.
   (B. Com., Allahabad, 1926).

8. Discuss the powers and duties of the chairman of a meeting of the

shareholders of a joint-stock company. What should be his qualifications? (B. Com., Bombay, 1924).

9. What part does the agency system play in Indian business? What are the merits and drawbacks of the system? Would you advocate its abolition? (B. Com., Bombay, 1930).

5. Distinguish between a Partnership and a Limited Liability Company, carefully explaining the comparative advantages and disadvantages of each. (B. Com., Cal., 1943).

CHAPTER V

INSOLVENCY AND LIQUIDATION

General

In business of any kind, chances of success and failure are equally possible. When a person, or a company is unable to meet the creditors in settling off obligations, or even unable to carry on in the ordinary course of business, he or it is said to be insolvent or bankrupt. The various Presidency and Provincial Insolvency Acts have laid down rules and procedures for dealing with an insolvent person, or a private firm, while the Companies Act deals with an insolvent company.

Procedure in Insolvency

The procedure against a prospective insolvent person is, broadly speaking, the following.

The debtor may of his own accord file a petition for insolvency to the court, which will declare him to be so, if it is satisfied that the case for an insolvency is valid. Or, a creditor may bring a petition of insolvency against a debtor, and have the latter declared to be so, after due and regular examination of all relevant details.

Immediately after declaring a person insolvent, the court will leave other details in the matter to be attended to by either the official Assignee, or a Receiver, appointed and approved of by the Court. The Assignee or the Receiver will hold a public examination of the debtor, and convene a general meeting of all creditors. In this way a full and complete examination will be made of the debtor's assets and liabilities. In case the debtor is found guilty, at any stage, of misconduct or fraud, criminal prosecution will be instituted against him by the Assignee or the Receiver.

Generally, the Assignee or the Receiver will try to collect and convert the available resources of the debtor into cash, in

order to meet the creditors on a *pro rata* basis as well as according to priority of rights of claiming repayment.

It may be noted here that in course of an insolvency petition being heard by a Court, an insolvent may try to settle up his matter with the creditors on a voluntary basis by means of a scheme of arrangement, or a proposal for composition. That is to say, the Court will agree to stop further proceedings if it is satisfied that the majority of creditors controlling at least three-fourths in value is agreeable to accept the terms offered by the debtor for a voluntary settlement, and the insolvency petition will be then withdrawn.

If a debtor is discharged in an insolvency proceeding, he comes free from all liabilities previously incurred, and then can again start afresh.

In the case of a public limited company, it can either go into voluntary liquidation, or may be compelled to do so by an order of the Court. Sometimes, voluntary liquidation may be effected by the creditors or shareholders of a company under the supervision of a Court. A company may go into voluntary liquidation by a general, special, or extraordinary resolution, according to the provisions of the Indian Companies Act.

Generally, a liquidator is appointed to look after the affairs of the company, when it goes into liquidation. Where a Court orders a liquidation, an Official Liquidator is appointed. The duties of a liquidator are similar to those of an official Assignee or a Receiver. An official Assignee, Receiver, or Liquidator is always paid for his services so rendered.

Procedure in Liquidation

The procedure of liquidation of a company is regulated by the Indian Companies Act. The winding up of the affairs of a company really means the realisation of the assets of the company, and distributing them amongst creditors first, and then the balance amongst the shareholders.

Modes of Winding up

There are three ways of winding up recognised by the Indian Companies Act, namely.

(a) *Compulsory winding up by Court.* A Court may order the winding up on presentation before it of a petition if (*i*) the company passes a resolution to that effect, (*ii*) if the company defaults to hold statutory meeting or submit statutory report, (*iii*) if the company does not commence business within a year of its incorporation, (*iv*) if the membership of the company falls below seven and two in the case of public and private companies, respectively, (*v*) if the company is unable to pay its debts.

Thereupon the Court will appoint an Official Liquidator or other liquidators in order to conduct the winding up procedure of the company.

(b) *Voluntary Winding up*—This is done by parties and is of two kinds e.g. (*i*) it is called *Members' Voluntary Winding up* in the case of solvent companies, and (*ii*) it is known as *creditors' winding up* in the case of insolvent companies. Proceedings in a voluntary winding up are similar to those of compulsory winding up except that in the former the liquidator is appointed by the creditors or by the company according as it is a creditors' or members' winding up.

A company may be voluntarily wound up (*a*) if a company is formed for a fixed term which expires or the company passes a resolution to this effect in a general meeting, (*ii*) or if the company passes a special resolution to this effect, (*iii*) or if the company decides so by passing an extraordinary resolution to this effect.

If no declaration is made regarding the insolvency of the company, it is called a *creditors' voluntary winding up*.

(c) *Winding up under the supervision of the Court*—It is nothing but a continuation of a voluntary winding up under the supervision of the Court. The Court generally issues such an order at the instance of the liquidator or creditor.

The Court has the power to set aside the dissolution of a company on an application by the liquidator or any other interested person within two years of the dissolution.

An insurance company can be wound up according to the provisions of the Indian Insurance Act of 1938.

Removal of a Company from the Register

The Registrar of Joint-Stock Companies can strike the name of any company off the Register, if he is satisfied on enquiry that the company is not carrying on any business.

Questions

1. Define Insolvency. What is the procedure in insolvency?
2. Explain fully the different modes of winding up the affairs of a Company.
3. Under what circumstances can a Court send a Company in liquidation? Can the Registrar of Joint-Stock Company strike a Company off the Register and when?
4. Describe the position and define the powers of a Liquidator.

CHAPTER VI

OFFICE ORGANIZATION AND MANAGEMENT

Lay-Out

In planning the layout of an office including its construction and situation, proper care and consideration should be paid for cleanliness, accommodation, keeping scope for extension if required, lighting and ventilation. The various departments should be so situated and interlinked that the Manager can supervise them efficiently, and communication amongst them may be quick and easy.

Various Departments

In the modern office there are various departments in order to tackle the complexities of modern business life. Departments are planned according to individual and special needs of the business. Generally we find the following important departments.

Cash Department

This department is worked under the supervision of the Head Cashier, who maintains the General Cash Book. He usually receives cash, issues receipts in perforated slips, duly signed either by him or by the departmental Head or the Manager. He then enters the amount in the Cash Book.

Generally, a firm makes all payments by means of crossed cheques, which are prepared in the Cash Department and duly signed by the authorised departmental Head. Only small and contingent payments are made in cash. No payment is made on any bill, unless it is certified and passed for payment by the authorised officer of the company. Payees must give receipts, which are filed in what are known as "Voucher Guards."

Petty Cash

Petty payments like postage, coolie hire, cartage, etc., are made by a clerk known as the petty cashier who works under

the Head Cashier. The petty cash is kept under the *"Imprest system of Petty Cash"*. Generally the head cashier advances to the petty cashier a round some of, say, Rs. 100 ; the petty cashier makes all petty payments totalling Rs. 85 in the week ; at the week-end he renders his account to his head, who makes an entry in Cash Book on the credit side debiting these heads of accounts, and hands over to the petty cashier again a sum of Rs. 85 making the original petty cash to a total of Rs. 100 in the hands of the petty cashier.

Intelligence and Collection Department

In modern business credit must be given to customers, and so the success of any business will depend upon its ability to avoid bad debts. In order to extend credit cautiously and only to desirable parties, it is necessary to obtain full particulars about existing prospective clients. Every business firm should maintain an Intelligence Department, whose business will be to obtain all latest particulars of a client regarding his financial position and status before giving him credit. In the case of existing clientele the department should always keep a watch on them. Generally the department records its opinion about a client in a book, known as the "Opinion Book". The Department gathers information from balance sheets, banks, bazar gossips, private individuals, etc.

The function of the collection department is to collect in proper time all debts due to the firm. It works in close collaboration with the intelligence department. It must be very quick and cautious, otherwise bad debts will result. Demands for money should be regularly made, and mild reminders given. Names, addresses of persons, and sums paid by them should be recorded on cards. In the case of the hire purchase system an instalment book and ledger should be kept.

Purchase Department

This department is in charge of making all purchases. It must buy goods at the best possible prices. It must check care-

fully all invoices sent for commodities bought. Purchase journal generally records all purchases made.

Then we have also got the *Sales Department,* which is entrusted with the task of selling goods at the maximum possible prices in the best available market. It has to undertake necessary advertising compaign in connection therewith.

Accounts Department

This is, by far, the most important department. It may be said to form the nerve-centre of modern business organisation. It keeps all detailed records regarding expenses and receipts of the business. It is in constant and close touch with every other department, exploring new avenues of economies. It always keeps before the businessman a clear record of whether the business is making profits or losses. It, therefore, enables him to plan his action accordingly. The Accounts Department is an indispensable guide to an entrepreneur.

Mechanical Devices in Office

General

Just as modern production is now-a-days concentrated in a single unit on a large-scale system, so also the modern office of a business tends to be correspondingly large. In order to deal efficiently with its system of copying correspondence and documents, as well as to issue circular letters, etc., a modern office generally uses various mechanical devices to expedite work.

Telephone

Now every office has a telephone for quick communication of messages. In the same office many lines and receivers can be installed and inter-communication may be arranged by means of an exchange built up in the office. When telephone messages are transmitted over long distances, it is usually called a "Trunk Call".

Type-writer

A type-writer is one of the most common devices adopted in an office. Even to type a letter properly and neatly a type-writer should be used efficiently, intelligently and carefully.

Carbon copying on the type-writer is a very common method of keeping a copy of a letter or correspondence. This is done by inserting a carbon sheet and a blank sheet in position behind the letter as it is typed, and we can get an exact carbon copy of ~~a letter~~ so typed.

Dictaphone and Ediphone

This is a device, which obviates the necessity of an Office Assistant to dictate notes to a short-hand typist. It records any notes automatically, and the typist can then get them for necessary typing. It is worked by a phonograph, driven by a motor which is set in motion, immediately after the mouthpiece is removed from its holder. Afterwards a lever is moved into the "Dictate" position, and as words are uttered, they are transcribed on a revolving wax cylinder. Subsequently the typist who wants to listen to what has been said, moves the lever backwards to get the "Listen" position, and takes down the words as already recorded.

Copying and Multiplying Process

Printing

Printing may be used for multiplying copying processes. Printed copies are not popular, because they are expensive, and unsuited to sales letters, circularisation, etc. A customer who gets a printed letter does not pay due attention, thinking that he is only one of many who has got it. Hence a business-man always avoids printed copies, and tries to stamp each copy of sales letters with marks of special attention given to a customer. This can be done amongst others by the following mechanical devices.

Hectograph

The hectograph is composed of a metal tray, a tin of gelatine as well as a bottle of hectograph ink. After melting the gelatine by means of hot water, it is allowed to cool off into a solid mass. The letter is then written with hectograph ink upon a non-blotted paper, and is placed with face downwards on the gelatine, and pressed. The gelatine absorbs the ink ; then the original letter is placed on the gelatine and pressed, and we get a facsimile copy. Though it is possible to get 50 to 60 copies in this way, the hectograph is an old method, and is not commonly practised.

Mimeograph

A mimeograph machine consists of two parts, namely, (*a*) The writing frame, and (*b*) the printing frame. The fundamental thing of this machine is the *stencil,* either hand-made or typed. When a stencil is to be written by hand, a sheet of wax paper is stretched over the writing frame, and the original letter is written upon the wax paper by means of a metal stylus. The latter cuts through and expels the wax, and so when ink is applied to the surface, it percolates through the places cut by the pen, and forms the words on the paper placed under it. In case of typing the stencil the ribbon must be removed from the machine first. Then the oil sheet should be put in front of the wax sheet, and the perforating silk sheet placed behind the wax sheet. Then, again, on the back of the silk sheet, there must be a backing sheet. Now, "fold the sides and top of the tissue and wax sheets over the backing sheet, and then place the whole into the machine" and type the original matter, which is to be reproduced.

After obtaining the stencil in the above way, it is spread over, and tied to the printing frame of the machine. "A sheet of paper is placed under it, the frame holding the stencil is then brought down upon the surface of the paper, resting upon the bed of the machine, and when an inked roller is placed over the surface of the stencil and the frame is raised, an exact facsimile will be found upon the paper." The sheet is then

removed, a fresh one may be inserted, and thus the process may be repeated to get as many copies as wanted.

The mimeograph process of copying has been found to be an effective and popular one.

Rotary Multiplier

In the case of a *Rotary Multiplier* machine also, a stencil is to be prepared in the above mentioned way, and placed on a "linen ink-pad" spread upon a bored cylinder, held together by a metal framework. The pad is supplied automatically with ink by means of a rubber roller, placed in an ink reservoir, which is suspended between the sides of the metal framework. Usually a lever is used to bring the roller into direct contact with the cylinder to get the necessary ink. Then the "handle of the cylinder is rotated, and as the sheet of paper is fed into the machine it is gripped by a rubber roller, pressed against the stencil, carried round the revolving cylinder, and returned printed from the other side of the machine."

Multigraph

Multigraph is a kind of small printing machine where the types are set up by hand. The machine may be rendered a very quick method of copying, when it is driven by motor, automatically fed, and a cyclometer attached to itself. This machine can be used to duplicate facsimile copies of typewritten letters.

Lithography and Printing

It is also a popular method of multiplying copies where printing is generally done from stone, forms, or type.

Roneo Letter Copier

The Roneo Letter Copier machine may be worked by hand or motor. The letters are placed between the rollers, where they are copied on a roll of paper fed through the machine, and given delivery on the other side, the copying paper used is carefully selected from such a quality as to give facsimile of original

letter. The latter must be either written in copying ink, or typed with a copying ribbon.

Photostat

A photostat machine is used for the photographic reproduction of any letters, drafts, agreements, etc. It is composed of a camera with a magazine for the purpose of holding a roll of sensitised paper, and "with compartments for developing and fixing". The subject is then photographed "through a lens with prism attached" ; then photographic copies are made, and taken out in as many numbers as are wanted.

Addressing Machines

Various machines and mechanical devices have been found out for addressing envelopes, filling in cards, dividend warrants, bonus cards, etc. The principle underlying these machines is the preparation of a stencil on a metal, and to get the necessary printing. Of the several types of addressing machines, the *Roneo* and the *Addressograph* are very well known.

In addition to the above mentioned copying and addressing machines, an office has other forms of mechanical appliances for doing several other office jobs. Thus, for instance, *Comptometer* is useful for calculation, addition, checking invoices, etc. ; *Burroughs Adding Machine* is utilised for listing and adding ; *Hollerith Punching Machines* are used for punching cards in place of writing records, and they thereby enable analysis and tabulation to be made more easy and precise. Numbering machines are used for impressing serial numbers on papers.

Telewriter and *Teleprinter* are the most up-to-date mechanical devices for the transmission of messages, written or typed by telephone or telegraph lines. The movement of a key or a pen at one end of the line reproduces a corresponding movement at the other end, and hence the corresponding character is reproduced. In the case of a telewriter, a pen is used to write the messages on a visible pad, and then they are automatically rewritten on a pad, which is situated at the other end of the

line. Whereas, by a teleprinter "transmission of messages may be effected either by direct keyboard operation or by automatic tape operation, in which case the messages are first perforated on a paper tape by means of a keyboard perforator, and then the tape is fed through an auto-transmitter." When the message is to be relayed, the latter method is practised. In a teleprinter, the reception of messages may be in the form of (*a*) tape messages in Roman letters, (*b*) page printing, or (*c*) perforated tape messages. The teleprinter is becoming a popular device for communicating prices and information amongst several stock and share markets.

Filing and Indexing

General

Any business worth its salt tends to have a vast network of connections spread throughout the world. It aspires after dealing with a clientele scattered over all parts of the globe. In order to deal effectively and successfully with its customers, any business must necessarily maintain a most up-to-date and efficient system of keeping its documents, records and all other necessary papers, so that ready references are easily and quickly available. This can be done, only, if the business office maintains an efficient, simple and comprehensive system of filing and indexing so far as its records, documents, etc., are concerned. An efficient system of filing and indexing is practically the keystone of any modern office organisation. Disorganised and haphazard methods of maintaining papers will involve any business organisation in a maze of chaos and confusion. In practice, it is found how continuously the system of filing has been passing from one stage of improvement to another. Amongst the various systems, the following are worth noting. (1) Papers used to be arranged on *metal holders or pasted in Guard Books* to be bound in chronological order, which can be done more easily, now, by a better register system. Hence this system of filing was abandoned as it was complicated and disadvantageous. (2) *Pigeon-hole system* denotes keeping

papers in several pigeon-holes, generally, in alphabetical order. It was also rejected because it tends to occupy enormous space. Besides, the pigeon-hole system requires docketing. Before papers are put in pigeon-holes, they must be docketed for easy reference, that is, on top of each paper a short summary of its contents giving names, addresses, and purposes should be given. This involves extra-work, and as such greater costs. (3) To maintain papers in *increasing alphabetical cases* has its utility only for temporary purposes. (4) Letters are *punched with two holes* to fit on pikes, and clamped in the requisite file. Under this system files tend to be bulky, and if a letter is required to be removed, all letters previously placed are to be shifted as well. This involves inconvenience and causes delay. (5) *Box files* are good for sorting, but not for permanent storage. Box files generally have spring arrangement for holding the contents, which are kept loose. (6) *In flat filing*, the folders are placed flat in drawers. Though this system is commonly practised it is inconvenient, especially, when the holders become old and worn out. (7) The most modern and efficient system evolved is what is known as the *vertical system of filing*. This is done by means of folders, consisting of a hard but elastic substance folded with one edge projecting above the other. A docket of the paper filed is made on the projecting edge, giving a short summary of the contents. The folders are arranged vertically one behind the other in a drawer, which can be divided, if necessary, into various sections by inserting what are known as "Guide" cards. When a drawer is opened, all the projecting edges of the folders can be seen at a glance, and any folder may be easily removed only by itself.

Docketing

Under this system several pigeon-holes are provided. Letters to be filed are folded to a uniform size, and on the outside of each letter is written a short description of the contents, known as a docket, containing the name, brief address, date, and subject-matter of the letter. After making a docket of each letter, all correspondences are filed in proper pigeon-holes. This

is an extremely cumbersome and expensive system of filing, and is hardly practised.

Indexing

Generally a business firm despatches a large number of letters, and in order to have easy reference to previous correspondence, letters and documents are usually indexed. Indexing may be done in various ways, amongst which the following are important.

Alphabetical List and Cross-Reference

An alphabetical list is kept in the beginning of the book, and the name of a correspondent together with the number of the page in which the letter has been sent to him copied is recorded. Hence if more than one letter has been written to the same correspondent, and reference has to be made to any particular letter, repeated references to the index may have to be made with consequent loss of time. In order to avoid this inconvenience *Cross Reference* has been devised. Each copy of the letter in such cases is cross-referenced by entries in coloured pencil on the page numbers, to the letters to the same correspondent preceding and following the letter under reference. From the pencil entries on top of each copy, numbers of pages of two more letters to the same correspondent are found.

Ordinary Index

This consists of pages, each headed with a letter of the alphabet. Names to be indexed are recorded in a list on the page indicated by the initial letter, the folio being shown outside against names. Ordinary index may be (*a*) fixed when bound in a book, (*b*) loose in separate sheets, (*c*) extending when found in a book so as to open out themselves outside the book itself and (*d*) self-indexing when the leaves are so cut out as to make the letter of the alphabet visible outside.

Vowel Index

It is an extension of the ordinary index system in which each page is divided into six columns, namely, A, E, I, O, U,

and Y. Names are entered on the page having the correct initial letter in the column indicated by the first vowel coming after the initial letter of the surname.

Card Index

A card is allotted to each correspondent and in it are entered all details about him. These cards are then arranged in card drawers either alphabetically or numerically. Very often guide cards are made to project above the cards, and it is easy and quick by this means to trace the card which is required. Then one can trace the correspondence which is required by following the particulars noted on the card. The card index system is an improved method upon other systems of indexing, and is gradually passing through various forms according to individual convenience.

Card Folio

The index cards are filed in a loose-leaf book, several cards in a page, and are held by lacings which fit over the four corners of the cards in such a way that the latter can be removed from the folio by being slightly bent.

Pre'cis Writing

It means the making of the synopsis of a letter or a document. It should contain a summary, consisting of as few words as possible, just conveying clearly the meaning.

CORRESPONDENCE

General

In modern business correspondence occupies a predominantly important place. Cases are not rare, where a customer is to be attended to by means of a letter ; an order has to be solicited by means of an expert sales letter.

In approaching any person at first by means of a letter it should be carefully borne in mind to create a good impression, which always goes a long way towards fulfilling an objective.

Impression, good or bad, once created is very difficult to remove. There are many examples, where a business has been lost by a careless mistake, in spite of the very attractiveness of the business itself. Every business letter should be so drafted as to stamp on itself the personality of the writer. In drafting a letter we should always avoid common faults, which are found in business correspondence.

Common Defects and Their Remedies

1. The letter should not be drafted in a *dull stereotyped manner*. A touch of novelty always makes an interesting reading and a favourable impression.

2. It should be *neatly and legibly written*. If it is typed the typist must be careful to get it *typed in a very decent way,* without any mistake.

3. Proper *punctuation* and *paragraphing ought* to be made.

4. The letter should not be vague or ambiguous. The subject-matter should be put in a *clean and concise* manner, and if a letter is written on any subject once dealt with, it should clearly bear a reference, so that the reader may at once spot out the subject-matter. Otherwise, it causes irritation, loss of time and energy.

5. A letter should be couched in a *mild and courteous* language. *Tactlessness* is regarded as a great fault in any business correspondence. It should, however, be written in the most persuasive language.

6. It should be written in good and correct English.

7. It should be properly stamped.

8. A letter must be properly addressed, mentioning the proper rank of a person, if there be any.

9. The size of the envelope should be such that the letter may not be folded, preferably, more than twice.

How to Begin

Beginning is always somewhat formal *e.g.,* (*a*) we have pleasure in acknowledging the receipt of your letter, dated ...... or reference no . . . . . ;(*a*) (*b*) we beg to acknowledge

the receipt of your letter of the 1st instant, (*c*) with reference to your letter dated . . . . , (*d*) replying to your letter of 7th instant, (*e*) referring to your letter of 18th instant, and so on.

How to End

The ending is very often made with "yours faithfully," though a more polite ending is sometimes done in the following way :—

I remain, or I am,
We remain, or we are,

and at the end of this, comes the word "yours respectfully" or "yours obediently". In many cases, preceding this type of ending, the following may be found, too. (*a*) Awaiting the favour of your most esteemed orders, (*b*) assuring you of our prompt attention, (*c*) assuring you of our best service, and so on. Thus the ending becomes like this.

Assuring you of our best service,
We remain,
Yours respectfully,

Addressing

The addressing should be properly worded, giving proper titles and rank, and ought to be legibly written or typed. Generally 'Mr.' is used in addressing, though the use of "Esquire", or "Esq.", is fast becoming conventional. "Messrs." is the plural of 'Mr.", and should be used where the name of the firm or company is a personal one, as for instance, "Messrs. James Finlay & Co., Ltd." "Messrs." should never be used with impersonal names, *e.g.* "The Pioneers Stores, Ltd.", the name by itself is sufficient. Even the use of the word "Messrs." is incorrect in the case of a name, which begins with a title, *e.g.*, "Sir Hukumchand & Co." Here also the name alone is quite correct. "*Mesdames*" is used in place of "Messrs." where the partners of a firm are all ladies.

Signing Correspondence

In a proprietary business a letter should be usually signed by the proprietor, whereas a partner generally signs a letter in the case of a firm. In the latter case, invariably the signature is made under the firm's name, written or typed.

Where business correspondence is signed by any officer of a firm, who has been authorised to sign on behalf of the firm, the firm's name is prefixed in the signature by the word *"Per pro."* or "P.P.", which is the contraction of the word *"per procurationem"*, meaning "under the authority of". If a clerk signs of letter, without having any such authority to sign on behalf of a firm, the firm's name is prefixed by the word *"per"*, "P", or "for" in the signature.

The Heading

Points to Know in Business Letters

Generally firms have got printed letter papers. On the top of the sheet of paper in which the letter is written, usually the following information is found, namely, the name of the firm, its partners, the nature of business, the telephone number, the telegraphic address, etc. On right-hand side of the sheet is printed the address and under it, a space is left in order to insert date. If the letter paper is not printed, then it should be written up in the above manner. Dates in a business letter should never be put like 17-2-41.

The Reference

Usually every letter in business contains a reference number in the following way—(*a*) In reply please quote . . . . (*b*) Our reference No., (*c*) Reference No., etc. It is generally given on top of a letter.

The Inside Address

Below the printed or written heading the full name and address of the person to whom the letter is addressed should be

written clearly on the left-hand side of the paper. This is generally the same as the full address given on the outside of the envelope.

Specimen Correspondence

A retailer is complaining to a manufacturer in the following letter :—

2, Russa Road,
Calcutta, the 2nd May, 1943.

Dear Sir,

(1) We beg to bring to your notice that five tins of biscuits delivered to us about a week ago were not up to the specification, and we have, therefore, debited your account with the price for those five tins, which we are holding for your inspection and disposal.

Yours faithfully,
Pioneers Stores, Ltd.

In reply, the manager of the manufacturer's factory writes :—

Howrah, the 5th May, 1943.

(2) In reply to your letter dated the 2nd May 1943, we regret we cannot agree to your proposal. We consigned to you forty tins of biscuits about a week ago, all produced in the same place and with equal care.

Yours faithfully,
S. N. Roy.

Now, both the above letters are defective—(1) lacking in exact details of the goods complained about ; (2) very tactless and rude.

A new factory manager comes in, and replies to the same complaint in the following letter :—

Howrah, the 4th July, 1943.

(3) We are sorry to hear that a part of the goods delivered to you was not up to your expectation. We are investigating into the matter.

In the meantime, will you kindly let us know the numbers of the tins against which you are complaining? It will also help us, if you may send us a few samples of the biscuits, contained in any of those tins.

After hearing from you, we shall send Mr. Bose, our representative to you, and he will be able to settle up the matter to our mutual advantage.

Yours faithfully,
P. K. Bose.

The third letter is politely drafted ; it does not admit of the complaints of the retailer, but deals with the entire matter in a businesslike way.

Ordering Goods

In ordering goods, special care and attention should be paid that the letter contains all detailed information regarding the goods ordered, the price, the person to whom goods should be sent, and all other instructions which may be required.

It is always considered to be a good practice to acknowledge every order, even where the commodities are likely to be despatched immediately. Such an acknowledgment always keeps the customer well posted with all information.

20, Red Road,
Calcutta, the 25th May, 1943.

(4)

Messrs. Bose & Co.,
Johnson Road,
Dacca.

Dear Sirs,

Please purchase for us 10,000 sq. feet of gravels, washed and clean at a price not exceeding Rs. 30 per sq. foot. Kindly try to secure the best quality possible.

Should there be a slight difference in the price between the limit we have given and the current market quotations, we authorise you to make the purchase.

Yours faithfully,
Dutt & Sons, Ltd.

Letters of Introduction

A letter of introduction should be written and given very carefully. It is not necessary to incorporate any word of commendation in such a letter, because it is by itself a recommendation. Any business man will always consider the very letter itself as a sufficient hint for him to start business relations.

5, Dalhousie Square,
Calcutta, the 15th June, 1943.

(5)

Guin Bros., Ltd.,
9, Harrison Road,
Calcutta.

Dear Sirs,

We have been doing business with Messrs. Guha Bros., Ltd. since 1925, and we have always found them honest and straightforward.

Yours faithfully,
Ghosh Bros., Ltd.

Letters of Application

A letter of application should be written very carefully. It should be concise, accurate and fully exhaustive. It should be frankly written without either underrating or overestimating the applicant's qualifications.

25, Clive Street,
Calcutta, the 1st July, 1943.

(6)

Radio Company, Ltd.,
2, Dalhousie Square,
Calcutta.

Dear Sirs,

I beg to apply for the post of a clerk in your office.

I matriculated in 1942 from the Calcutta University, and was placed in the First Division. I read at the Hare School in Calcutta up to the Matriculation Class.

I belong to a respectable family of Bengal. I am now sixteen years old.

Letters of Recommendation

A recommendation should be carefully worded because it is likely to carry great weight with the person who will act upon it. If any person is unusually commended in a letter of recommendation, and that person in practice does not justify this, then it is likely to discredit the one who gives such a letter of recommendation.

22, Canning Street,
Calcutta, the 2nd June, 1943.

(7)

Mr. Satish Chandra Bose was my student in the B.Com. Class from 1938-40. He graduated from the University of Calcutta in 1940 with distinction. He is intelligent, industrious, and honest. His conduct in the class has been always quite satisfactory.

S. B. Dhar, M.A.

Inward Correspondence

Generally the Chief opens out all letters received in a small office after each delivery, but this is not possible in a big office. In the latter, clerks are usually placed in charge of opening all correspondence received, and sort them in proper order for different departments, excepting those, which are specially marked "private" or "confidential". These are generally sent directly to the Chief or his authorised assistant.

Letters Received Book

Business houses generally keep a Letters Received Book in which are recorded the receipt of all letters, postcards, telegrams, etc., with particulars of dates of receipt and a docket of each letter. This ensures that every letter has been properly attended to ; in case any letter is mislaid, it can be easily detected from this book.

Outward Correspondence

Every business house keeps in its record a copy of each letter which is sent out. As it is not possible to copy each letter by hand in a big mercantile firm, several mechanical devices of

copying have been resorted to. Amongst these the (*a*) Press Copying, (*b*) Carbon Copying, and (*c*) Rotary Copying processes are generally popular. These mechanical devices ensure exact copies, and save time and trouble. By thus keeping a record of all inward and outward correspondences, it is possible for all business houses to keep on record copies of all transactions, and easy references can be made whenever required.

In order to facilitate quick and easy reference, it is necessary to have proper and systematic filing and indexing.

Telegrams

Business firms use telegrams very frequently, and as they are expensive, they should be sent in as concise a form as possible.

Codes

In order to minimise expenses, telegrams and cables are usually sent in *code language*. *A Code language* consists of (*i*) artificial words, e.g., combination of letters, having the appearance of words, or (*ii*) real words, not forming intelligible phrases. In order to have the reduced rate, no code word should exceed five letters.

Cypher Language

It consists of groups of figures or letters having a secret meaning. It is usually charged at the rate of five characters to a word, but it is not allowed to use letter cypher and figure in the same expression. Cypher telegram maintains strict secrecy, and is not allowed in many countries.

Telegram or Cable Codes

Various code books have been prepared in which distinctive words or letter combinations are used to represent employed business phrases. Amongst code books, the popular ones are A B C, Bentley's, Marconi's, Western Union, etc., and firms generally indicate in their stationeries the code which they use.

Sometimes firms make up their own private codes which are understandable only amongst known circle.

Code used—A B C (7th Edition, 1936).

DILON = c.i.f. Buenos Aires.

IJGAK = At what price can you offer shipment next and following month?

Questions

1. Give a description of any modern office with which you are acquainted. Enumerate the most useful time-saving devices of the modern office. (B. Com., Cal., 1923).
2. Describe three distinct private code systems and explain the relative advantages of Plain Language, Code and Cypher Telegrams. (B. Com., Cal., 1924).
3. Set forth clearly your views on the function and organisation of the Credit Department of a big mercantile house. (B. Com., Cal., 1924).
4. State generally the kind of organisation you would have if you were in charge of either an export and import business or an industrial concern. (B. Com., Cal., 1926).
5. You are carrying on an extensive business with branches in several countries and head office in Calcutta. Discuss carefully the system you should adopt to meet the situation in such case. (B. Com., Cal., 1930).
6. As manager, what are the different departments you would expect to find in a newspaper printing and publishing company and how would you control them? (B. Com., Cal., 1932).
7. You have been appointed by a large business house and you find it impossible to go into detailed workings of each department. What methods would you adopt to keep yourself acquainted with the affairs of each department? (B. Com., Cal., 1937).
8. Mention at least five of the labour-saving devices used in a modern office, and explain the function of each. (B. Com., Cal., 1939).
9. Mention and describe four labour-saving devices in a modern office. (B. Com., Cal., 1941).
10. What are the salient points in the efficient organisation of the purchasing department of a trading firm. (B. Com., Bombay, 1927).
11. Examine the principles underlying the office organisation of wholesale trading firms. (B. Com., Bombay, 1927).
12. Describe the part played by the Credit Intelligence Department in a big modern business. (B. Com., Bombay, 1924).
13. Explain in detail a good filing system. (B. Com., Lucknow, 1923).

14. Describe the leading systems of Filing and Indexing of correspondence, and what system would be the best suited to the requirements of an establishment having correspondents all over the world, and hundreds of letters received every week.
(B. Com., Bombay, 1922).

15. What is Press Copying? What are its advantages and disadvantages? (U. E. I., 1927).

16. A firm desires to send about 100 circular letters in good business style to its customers. Explain the method of duplicating that you would consider best for the purpose.
(B. Com., Lucknow, 1923).

17. Name and describe one of the best known telegraph code systems, and describe the difference between a code and a cypher.
(B. Com., Lucknow, 1924).

18. State the advantages of Telegram Codes in the mercantile world and describe the principles on which you would proceed to prepare a private code for the use of a firm of merchants who import and export goods from and to foreign countries.
(B. Com., Bombay, 1923).

19. Describe the vertical system of filing correspondence.
(B. Com., Allahabad, 1926).

20. What do you understand by docking? (U. E. I.).

21. Describe briefly the system of filing you consider suitable for a merchant office and discuss the advantages and disadvantages of each. (B. Com., Cal., 1924).

22. You are in charge of a large business house with a large number of correspondents situated in Great Britain, France, Germany, Canada, and Japan besides India. What system of filing and indexing correspondence would you introduce with a view to keep the organisation most efficient? Describe the working of the system in detail. (B. Com., Cal., 1925).

23. Describe the advantages of card indexing system.
(B. Com., Cal., 1933).

24. Explain what you mean by indexing a letter and writing the precis of a correspondence extending over several letters.
Index the following letter in proper form :—

48, Merton Road,
Wimbledon, S.W.
1st November, 1933.

The World's News Offices,
London, W.C.

Dear Sir,

With reference to your advertisements in The World's News, offering for sale a Minervette Motor car, 5 h.p. two seater, which

has only been used for four months, I should be glad if you would make an appointment with me to view the car, and if the result be satisfactory, to make arrangements for the trial run. Should the car be in good condition I should be prepared to make you an offer of, say, £80; £40 cash down, and the other £40 at the end of three months.

Trusting you will reply to this at your earliest convenience.

Yours Faithfully,
Walter H. Goodman.
(B. Com., Cal., 1934).

25. Draw up a letter to a customer who has written complaining to you of the late delivery of goods ordered. (B. Com., Cal., 1927).

26. Draw up a well ordered letter for these notes inserting names and addresses: Letter knowledge—samples and prices forwarded—many others in stock—prices for small quantities—reduction for larger amount—every effort to please. (B. Com., Cal.. 1927).

27. Write out clear from the notes below the reply to the following letter :—

14, Charlton Road, Senderstead,
10th August, 1908.

Dear Sir,

As I see from an advertisement in one of the daily papers that you have a drapery business for sale in Kent, I shall be much obliged if you will favour me with particulars of the same.

Yours Faithfully,
Robert Williams.

To Mr. G. Mint, Auctioneer,
8, Morgate Street, London, E.C.

Notes for reply :—The business comprises of a Grocery, Drapery and Outfitters' business situated at Mainstone, Taking last year £63,500 roughly. Has been established 100 years and in same hand for last 20 years. Premises comprises of: 3 shops all adjoining, 7 rooms, nice yard, garden stabling and storehouse. Price including all fixtures house and van and stock £950. About 400 of purchase money could remain. Will bear investigation.

(B. Com., Cal., 1928).

28. Write a letter to your consignor regarding the superior quality of goods supplied—the low turnover—hence, requesting a higher commission rate on future consignments. (B. Com., Cal., 1932).

29. Complaints have been received by a firm of Calcutta Manufacturers that a retailer in the country is selling their manufactured products below the minimum retail prices.

Draft a suitable letter containing his reply refuting the charges generally and explaining why in a very few cases he had been compelled to sell below the minimum retail prices under very special circumstances. (Letter should be completed in all details).

(B. Com., Cal., 1932).

30. Prepare a precis of the following correspondence.

First Letter.

High Street,
Kingston, June 2.

Messrs. A. B. & Co.,
Leadenhall Street, London.

Dear Sirs,

I have been recommended to you by my friend, Mr. Jones, White Lion Street, Exter, who is a client of yours.

Will you please buy for me £400 Canada 4% Bonds as soon as they are ex-dividend, and on receiving contract I shall forward cheque for the amount.

Mr. Jones tells me that you charge him only half commission and I shall be glad if you can place me also on the same footing.

Yours, truly,
C. Chambers.

Second Letter.

Mr. C. Chambers,
High Street, Kingston.

Leadenhall Street,
London,
June 4, 1934.

Dear Sir,

We are duly in receipt of yours of the 2nd instant and are obliged to Mr. Jones for mentioning our name to you. Any orders with which you may favour us shall receive our best attention, and we shall, as in Mr. Jones' case, charge you half commission only.

We note your instructions to purchase £400 Canada 4% Bonds, ex-dividend; they will be thus quoted on the 6th instant, when we shall carry out your order and forward your contract.

Yours Faithfully,
A. B. & Co.

Third Letter.

Leadenhall Street.
London,
June 6, 1934.

Mr. C. Chambers,
High Street, Kingston.

Dear Sir,

Enclosed we send you contract for purchase of £400 Canada 4% Bonds, ex-dividend, as instructed. In sending cheque for the amount, kindly instruct us whether, when the Bonds are to be delivered, we are to forward them to you by registered post, whether you will call for them, or otherwise.

Yours faithfully,
A. B. & Co.

Fourth Letter.

High Street,
Kingston,
June 8, 1934.

Messrs. A. B. & Co.,
Leadenhall Street, London.

Dear Sir,

I have received yours of the 6th instant, enclosing contract, for which I send you cheque herewith.

Please return the contract receipt, and hand over the Bonds, when delivered, to my bankers, Messrs. Brown & Co. of Cornhill, advising me of your having done so.

Yours faithfully,
C. Chambers.

Fifth Letter.

From
A. B. & Co.,
Leadenhall Street,
London, E. C.

To
Mr. C. Chambers,
High Street, Kingston.

Dear Sir,

In accordance with instructions in yours of the 8th current, we have this day handed to Messrs. Brown & Co., 501, Cornhill, £400 Canada 4% Bonds, bought on your account.

Yours faithfully,
A. B. & Co.

(B. Com., Cal., 1934).

4. What is a Code? How and why is it used? What is a Private Code? What is the special purpose served by this?

(B. Com., Cal., 1943).

CHAPTER VII

MONOPOLIES AND COMBINATIONS

General Principle

In modern industrial economy, the greater part of production is made under a system of large-scale production. To start with, in every line of production, several units engage in producing commodities under large-scale system of production and they, generally, compete with one another to capture the market. Gradually, the market is over-supplied with goods, and competing units engage in cut-throat competition, which leads to under-cutting of prices with resultant loss of profits. Then the individual units tend to co-operate with one another in order to regularise and increase their profits, and thus competition leads to combinations.

Combinations may take various forms, and the fundamental object is to maximise the earnings of industries either by securing economies in production or by regulating prices.

Monopolies: Absolute and Partial

A combination of producers when it aims at regulating and controlling production tends towards monopolies. Economic monopolies mean effective or partial control of supply or demand of a commodity. When effective control is full, it is a case of an absolute monopoly which is rarely found in actual practice. A monopoly is generally said to exist, when we find that the greater part of supply or demand of a commodity is under the control of a single organisation. In Economics, cases of demand monopoly are rarely to be met with, and so we shall be concerned mostly with monopolies of supplies.

Natural, Artificial, Legal and Social

Monopolies may be natural or artificial. Jute is a natural, or even it may be called a geographical monopoly of Bengal. Any kind of industrial combination of various producing units

may be regarded as an artificial monopoly. Plants and copyrights are examples of legal monopolies, because law has given this monopolistic rights to the persons concerned. Legal monopolies are necessary to encourage inventions, otherwise, people may not engage in new pursuits, if they are not assured of the results of their inventions. Social monopolies refer to monopolies, where society sanctions to particular producing units the sole control of supply of particular commodities, like gas, electricity, water. Post Office is given the monopoly of postal matters. Social monopolies are essentially based on economic advantages and conveniences.

How a Monopolist Fixes Price

In case of competition, prices of commodities are determined by conditions of demand and supply, and they tend to be equal to the marginal cost of production and marginal utility. In case of a monopoly, its price is governed by different principles. The fundamental object of a monopolist is to obtain maximum gains, and he, therefore, fixes his price with this object in view. If the monopolistic commodity is produced under the principle of decreasing cost, the monopolist will tend to lower price, so that a large quantity may be sold. Then costs will be lower, and hence his gains will tend to be maximum. In case his industry is subjected to the law of increasing costs, he will prefer selling a small quantity at a higher price, because that way his aggregate profits may be greater. Thus the price of a monopoly has very little relation with costs of production.

Industrial and Commercial Combinations: Causes and Advantages

The bulk of modern industrial production is done by large producing units, especially, of the joint-stock type. After engaging in cut-throat competition amongst themselves they naturally tend to combine.

Developments of modern transport, means of communications and transmission of news through wireless, telephone and telegraph have made it feasible for large combinations to be

brought within manageable compass and, hence, the growth of the latter has been rendered easier.

Since many transport companies allow cheaper rates for heavier traffic, combinations are formed by producing units to avail of this facility.

The protection of indigenous industries fosters combinations. Once industries develop in a country behind a protective wall, they tend to combine in order to keep the protective tariff intact by presenting a united front.

In addition to achieving the economies of a large-scale production, an industrial combination may reduce selling costs by resorting to less advertising. By controlling the market, an industrial combination may so divide the market amongst participating members as to reduce freights and other transport charges ; it may also effectively control prices and output, and thereby assure price stability, which is a fundamental requisite in modern business.

In certain industries, a monopoly is a technical necessity, *e.g.*, Railways, Water Supply in a town, Electricity, Gas, Tramways, and similar other public utility concerns.

The gradual decay of raw materials may be a great incentive for the growth of combinations and monopolies.

In the modern international economy, market has become international in scope. Hence, risks of selling have also been considerably enhanced. In order to minimise such dangers and losses, firms generally tend to combine and act together, so that risks may be distributed amongst all.

Combinations: Horizontal and Vertical

Industrial combinations generally partake of two forms, namely, horizontal and vertical. When competing firms engaged in the same line and stage of production combine together, it is a case of horizontal combination, *e.g.* different railway companies, steel industries, jute industries combine together. In case, industries concerned with different kinds or stages of production combine together, we have an example of a vertical combination, thus for example, an iron and steel industry com-

bines with a coal mining company, or a transport company. The principle underlying such a vertical combination is that the manufacturing concern aims at controlling the supply of its commodity throughout all stages of production, namely, from raw materials to supplying finished products in different markets.

Forms of Combinations

Amongst different forms of combinations, trusts and cartels are usually the most popular ones. Both these combinations are formed essentially to increase the profits in any industry.

Trusts generally mean a really economic combination in the sense of an amalgamation. It consists in the fusion of the existing independent units, which lose their independence and merge themselves into a single combined unit. Trusts mean the formation of a single larger unit by the unification of existing independent concerns. It, therefore, increases the size of the productive units, and renders economies in production possible under a large-scale system of production. Trusts aim at maximising the profits of an industry by reducing costs of production through improved methods and large-scale production. Since a trust aims at increasing the size of a unit of production, it tends to combine in a single entity several undertakings in different branches of an industry, so that it may be self-sufficient. The American Oil Trust has built up its own shipping in order to control its own transport.

Cartel is a much looser type of combination. In a cartel organisation, the individual units retain their independence and entity. They simply combine together for some specific objects, namely, to control output, quality and prices. Cartels are essentially devised to increase profits by controlling output and prices. Cartels are agreements amongst competing units, and as such they are much less durable than a trust. Cartel agreements tend to break down, if members fail to abide by the agreement, though attempts are being made now to strengthen the cartel organisation by devising various voluntary methods to compel participating members to obey the cartel agreements.

Since cartels aim, mainly, at regulating output and prices, they tend towards that type of monopoly, which partakes of an anti-social nature. Whereas, trusts by merging independent units into a large single unit, generally, tend to obtain economies in production, and as such are less objectionable monopolies from the social point of view.

Trusts

Ordinarily, a *business trust* means a form of business organisation in which the property is vested in one or more of the trustees, who manage the company on behalf of the beneficiaries or real holders. A *combination* trust refers to a monopolistic combination. It means the consolidation of several companies, which is brought about when the shareholders of different combining companies transfer a controlling amount of their shares or all their shares to a joint body established by them under a trust agreement, in exchange for trust certificates. This joint body is the *Trust*, which becomes a separate legal entity. A combination trust is defined as "a form of business organisation established through temporary consolidation, in which the stockholders of the constituent organisations under a trust agreement transfer a controlling amount of their stock to a board of trustees in exchange for trust certificates. These certificates show their equitable interest in income of the combination".

The Trust Movement originated in the United States of America in the formation of the Standard Oil Company. At that time, a number of competing oil companies transferred substantial portions of their shares to the central company forming a Trust, and its members conferred powers of attorney on a few trustees who took up the control of the combining companies. The shareholders of the joining companies were granted Trust Certificates, entitling them to proportionate profits. This form of Trust was declared illegal, and hence the later growth of trusts in the United States of America took such other forms as could not be declared illegal. In our country, trusts are legal, and the various *Managing Agency* firms are more or less akin to Trusts.

Kinds of Trusts

(*i*) When shareholders of several companies form a Trust by placing their shares in the hands of trustees and confer irrevocable voting powers of their shares upon those trustees in order to enable them to vote according to the will of the latter, a *"Voting Trust"* is formed, as in the case of the Standard Oil Trust and Whisky Trust of America. The Trusts merely secure the voting rights, and not ownership of the shares, transferred to the Trustees in trust.

(*ii*) A "Community of Interest" type of a trust is formed, when the general business policy and administration of several companies are controlled and guided by a group of common directors or shareholders. The units of the trust continue to maintain their independence in internal management. It is sometimes known as an "Inter-locking Directorate", when several companies have common directors on their Boards. Sometimes, *Inter-locking Directorate* is found, where the unity of policy and action is secured amongst independent firms by agreeing to exchange, mutually, their directors. They, however, tend to continue under separate and independent control and management. The stability of this type of trust is questionable, because its success must necessarily depend upon the confidence and conduct of each individual director. The Managing Agency firms in India are very much similar to this type of trust. Several companies managed by the same Managing Agency firm have common directors serving on their Boards. The Standard Oil Trust of the United States of America is a trust of this type.

(*iii*) A "Share Exchange Trust" is said to exist when the companies forming the trust issue new shares, and exchange them with one another.

(*iv*) The trust movement after passing through the above forms has now come to occupy a more developed and perfect form. Now-a-days a new company is formed, and it buys up the entire or the majority of the shares of the companies forming the trust. It, thereby, tends to control the subsidiary

companies by means of a central control and administration. It takes the form, which is popularly known as the modern Holding Company.

Holding Company

A Holding Company denotes that type of business organisation in which a company generally holds either the entire or the majority of the shares or stocks of several companies engaged more or less in the same line of industry in order to acquire a controlling interest in the latter. The latter are known as subsidiary companies or subsidiaries and the former is known as the Holding Company.

A *Modern Holding Company* may be formed either by a new company or an existing company acquiring a controlling interest in the subsidiaries by possessing the entire or the major part of the shares or stocks of the latter. It is always preferable to start a Holding Company with a new one, because it can be adjusted to circumstances and requirements. Acquiring shares of the subsidiary companies may be either for cash or for shares in the Holding Company.

Kinds of Holding Companies

A pure *Holding Company* simply acquires the stocks of the subsidiaries without engaging in any technical process of production as in the case of the United States Steel Corporation. The Standard Oil Company of the United States of America is a mixed *Holding Company*, because in addition to acquiring the stocks of the subsidiaries it tends also to work plants. A primary *Holding Company* is the sole head, while an intermediary *Holding Company* is again a subsidiary to the primary one, which is subdivided for convenience of control and management.

The managing agency firms in India are very much akin to Holding Companies. Firms like Gillanders Arbuthnot & Co., Andrew Yule & Co., etc., are generally owners of the majority of shares of several companies doing same kind of business,

and also manage them. Andrew Yule & Co., as for example, holds the major shares of a few jute mills and also manages and controls them.

Generally, the subsidiary companies remain independent legal entities. They also continue to function as independent units, especially in matters of internal organisation and management. The unification of interests amongst subsidiaries is obtained by the Holding Company by exercising its general control and supervision.

Advantages

Being a legal entity, a Holding Company is entitled to all privileges and advantages of a Joint-stock Company in matters of share capital and limited liabilities. Capital is concentrated and unified control becomes possible. Though centralised management ensues, the subsidiaries do not lose independence; they are usually allowed to carry on as independent units. A Holding Company is financially strong, and enhances also the financial stability and strength of its subsidiaries in the eye of the public. Nearly all advantages of large-scale production and business become available to a Holding Company.

Disadvantages

The liability of the members of a Holding Company is very insignificant as compared to their financial powers. This may lead to dangers which follow great power without corresponding liabilities. It tends to create monopolies, concentrate power in the hands of a few, and, therefore, may lead to baneful economic results. Secrecy of interests and operations may lead to dangers also. It initiates complexities in company organisation leading to misleading results and obscuring real facts for shareholders. Amalgamations are more often controlled by regulation than by intelligent action. Individual responsibility and initiative tend to be discouraged. Minority shareholders in the subsidiaries may suffer. Inter-company matters may be injuriously manipulated. In order to make a Holding Company work successfully, very capable entrepreneurs are required.

Merger or Consolidation

A Merger or Consolidation takes place by an exchange of shares amongst the companies concerned. It may be also formed when the absorbing company purchases outright the complete or controlling interest in the subsidiary companies in order to destroy completely the independence of the latter. The subsidiaries lose their individual entities.

Forms of Cartels

Cartels originated in Germany, where we find the most organised form of it in the German Westphalian Coal Kartell and Steel Works Cartel.

Price agreements are formed amongst various units under which they agree not to sell below a certain fixed price. This type of cartel is difficult to work, because evasion is easy and likely. Besides, by leaving supply uncontrolled, it can hardly keep up prices against the inevitable economic forces.

An agreement amongst units *to restrict their production* according to a fixed quota is uneconomic as it tends to perpetuate the existence of inefficient firms, and efficient units are hindered in their development. An agreement of this type is now working among the Bengal Jute Mills.

Agreements formed *to divide markets* among individual units mostly on a geographical basis are more organised types of cartel. The Imperial Tobacco Company of Great Britain and Ireland and the American Tobacco Company agreed to work under this type of an agreement in 1902.

Individual producers form agreements *to pool profits* under a rule that each will pay to a common pool all his receipts minus costs, and total profits thus accumulated will be distributed among the participating members in some predetermined proportions. This discouraged efficient production, and to checkmate this evil it is usual to fix a standard cost and a standard sale price. It is, further, provided that production gains should go to individual firms concerned and marketing profits to the pool.

In order to make cartel organisation effective and to check evasion, the most organised type of cartel was evolved in the form of a *participating cartel with selling syndicates*. Under this type, individual firms agree to establish a joint selling agency which is registered as a separate company having the individual firms as its shareholders. Shares are given according to quotas of production held by members. Quotas of production are allowed to producing members. Penalty is imposed if quota is exceeded, and compensation is arranged for if quota is not reached. A basic cost of production is agreed upon. Individual firms agree to sell their entire output to the selling agency at a price little higher than the basic price, and the selling agency, afterwards, disposes of total production. Individual firms, thereby, retain production gains for themselves, and marketing gains are later distributed among members according to their output.

The cartel movement is very popular in Germany, Austria and Belgium.

The Westphalian Coal Cartel and the Steel Works Cartel have succeeded to a large extent in reducing costs of production through economies in advertising, selling, transport, etc. The Steel Works Cartel is more international in scope, because it tends to include all steel industries in Europe, excepting those in Great Britain.

Cartel is legally recognised in Germany. All agreements must be in writing. If they contain anything which is against public policy they will be declared void by Courts. The Reich President under cartel law of 1933 in Germany appoints judges and assistants for Cartel Courts, which decide all matters arising out of cartel agreements. Since 1933, Ministers are empowered to introduce compulsorily cartels or combinations in Germany, if they think them to be necessary. Cartelisation was introduced in the cigarette industry by the Minister of Economic Affairs. Compulsory cartelisation was also forced upon the German potash and coal industries.

The Indian Sugar Syndicate may be cited as an example of a cartel. It generally allots a quota of production to each

of its member firms annually. The product is also disposed of through the Syndicate.

There are several other forms of combinations, which are usually, in the nature of terminable associations, and their objects are less defined. Most of them, generally, aim at securing greater profits by artificial control of output and price.

Ring or Corner

A *Ring or Corner* is formed by capitalists or dealers in order to obtain a monopoly of supply. They intend to control the supply, regulate prices with the object of making big profits.

Pool

A *Pool* is a combination of producers, who aim at eliminating competition amongst themselves by dividing the market, total output or earnings on an agreed basis. Pools flourished in the United States of America at the end of the last century, and were then declared illegal being institutions in restraint of trade. They were replaced by trusts.

Syndicate

A *Syndicate* is an association of producers formed for the purpose of regulation of output and price. The member firms sell all their production to the Syndicate at a price fixed by the latter, and then the Syndicate disposes of the product in the market at a price, determined by market conditions. Profits of the Syndicate are then distributed amongst the members according to a pre-determined arrangement.

Questions

1. Explain the following—(*a*) Productive co-operation, (*b*) Co-partnership, (*c*) Profit-sharing, (*d*) Cartels. (B Com. Cal., 1925).
2. What differentiates a monopolist from an ordinary dealer? Give instances of different kinds of monopolies. (B. Com., Cal, 1929).
3. Discriminate clearly between Trusts and Cartels and explain the conditions which favoured the growth of Trusts in the U. S. A. and of Cartels in Germany. (B. Com., Cal., 1929).

4. What is a holding company, and how does it exert its influence over its subsidiaries? What advantage is derived from such an organization? (M.A. Com. 1929, B. Com. Cal., 1932).
5. Distinguish between a Trust and a Cartel, bringing out the salient features of each. (B. Com., Cal., 1937).
6. What is a Monopoly Price? In the case of a complete monopoly, how would you calculate the Monopolist's Profit? Show, by means of a diagram, how, in the case of a commodity subject to the Law of Increasing Returns, it is possible for a Monopolist to reduce the selling price and at the same time increase the profits. (B. Com., Cal., 1938).
7. What is Cartel? How does it differ from Trusts and Pools? (B. Com., Lucknow, 1924).
8. What do you understand by pool agreement? Do you know of any pool agreement in any industry in Bengal? (M.A. Com., Cal., 1929).
9. Discuss the nature, object and economics of vertical and horizontal combination. (M.A. Com., Cal., 1928, 1929).
10. Indicate the chief reasons for the modern tendency towards amalgamation of business undertakings. Point out the effects of such amalgamation. (B. Com., Cal., 1928).
11. Discuss the influence of competition on modern industry and trade. (B. Com., Cal. 1927).
12. Describe the various types of industrial combinations and indicate the strong and weak points of each. (M.A. Com., Cal., 1928).
13. Discuss the main features of a holding company, and explain the distinction between a managing agency and a holding company. (B. Com., Cal., 1942).

CHAPTER VIII

BUSINESS GOODWILL

Definition

It is difficult to define business goodwill in a precise and definite manner. It generally refers to advantages and benefits which arise to a particular business by virtue of its reputation and connection.

Business goodwill, usually, originates from any or more of the following factors: (1) The good name may be associated with the *name of the commodities sold* as in the case of cigarettes and soaps. By their very trade marks like Gold Flake Cigarettes and Sun Light Soap, they carry behind them a business goodwill. (2) It may be associated with the *site of a particular business, e.g.*, a stationery store situated at a busy street corner automatically acquires a reputation by virtue of its position. (3) By its long, honest and good *dealings with customers*, a business house acquires a valuable reputation. (4) Goodwill may depend entirely upon the *personality* of a particular business man. It is true, especially, in the case of professions like medicine and law where the reputation depends upon the person concerned in the trade. (5) It may depend upon monopoly.

Economic Value of Business Goodwill

Once acquired, the business goodwill possesses definite *economic value*, and is marketable in case it is transferred to new hands. Once a business has found a good name for itself, this good name has got to be paid for, if anybody wants to purchase the business. It is an intangible asset. Its marketability will depend upon (*a*) how far it is possible for the buyer to avail of this advantage, (*b*) continuity of the business, and (*c*) absence of competition, entirely, or at least, to a reasonable degree of the seller in his past line of business. Where reputation is

entirely dependent upon personality, its marketable value tends to be negligible as in the case of a doctor's trade.

Evaluation of Business Goodwill

To evaluate business goodwill is a difficult matter, and various methods have been devised to do so. Among those, the following three are very popular.

The Super-Profits Method

Under this method profits of a business consist of (1) remuneration of the owner as a manager, as if he were employed other than in his own business, (2) interest equal to the prevailing rate on gilt-edged securities to be earned on the capital invested in the business, (3) interest to be earned, having due regard to risks involved in any particular business, and (4) lastly super-profits, which generally constitute what remains after allocating remuneration under the above three heads. Unless, therefore, the profits are sufficient to cover (1), (2) and (3) above the goodwill cannot be regarded as existing.

Before calculating the value of business goodwill, it is customary to arrive at the average annual super-profits of a business, and then the value of business goodwill is taken to be equivalent to a few years' purchase of average annual super-profits. The number of years taken will vary according to the type of business, *e.g.*, in the case of a solicitor's practice, where a considerable proportion of the goodwill is attributable to the personality of the solicitor, the number of years will be less than in the case of a stationery business, where practically the entire goodwill may attach to the site. Thus, if the average yearly super-profits are Rs. 500, the value of goodwill calculated on the basis of ten years' purchase of these profits is Rs. 5000.

The Annuity Method

This method which claims to be a more scientific method regards the value of the goodwill of a business as the value to the purchaser, at the time of purchase, of the right to receive

the ascertained amount of super-profits every year for an agreed number of years. Hence the value to the purchaser now of the right to receive a certain amount of super-profit two years ahead is less than the value of the right to receive the same amount one year ahead ; the present value of the right to receive the same amount three years ahead is worth even less and so on. The present value of receiving an annual payment over a future number of years can be calculated, having regard to the rate of interest, and that will be the price of goodwill.

The Capitalisation Method

Under this system the capitalised value of average annual super-profits is arrived at, assuming a certain normal rate of interest expected to be earned in that line of business. The capitalised value is generally in excess (if there be any goodwill) of the actual capital employed in the business, and that surplus value of capital is the value of business goodwill.

In all these methods the evaluation requires (*a*) an assumed rate of interest, (*b*) attention to be paid to tendency of profits —if profits are on the increase, the business goodwill will be valued higher and *vice versa*, (*c*) consideration of whether goodwill depends entirely on personal factor or otherwise, and (*d*) reserves in any business to be duly examined.

Questions

1. Illustrate and compare the methods of calculating the goodwill of a professional firm and a firm of manufacturers. (B. Com. Cal., 1933).
2. Write a short note on goodwill of a business. (B. Com. Cal., 1936).
3. What is the meaning of goodwill? Why is the buyer of a business prepared to pay for the goodwill and on what is the price usually determined? (N. U. T., 1928).

CHAPTER IX

BUSINESS INTERMEDIARIES AND SPECULATION

Business Intermediaries: Economic Significance

The modern economic system has become so complex and varied that it is no longer possible for producers to sell goods directly to consumers. In between the two, there now exist a large number of people who act as middlemen. Their main function is to take delivery of goods from producers and pass them on to consumers. They have specialised in this task of marketing. The goods are taken up firstly by wholesalers, who then pass them on to retailers. Again, there are agents, factors, brokers, dealers, shop-keepers, merchants, etc., who come in between the wholesalers and retailers.

The economic function performed by these business intermediaries are indeed great. They relieve producers of the task of marketing and of all risks of price movements. They bring about an adjustment of demand and supply in different markets during different periods. Being specialists in marketing, they help producers to manufacture the right type of commodities, and also supply the consumers with goods, which they require. They serve useful services at different points in the marketing processes, and as such they are entitled to their legitimate remuneration.

In spite of their services, middlemen are always criticised as parasites, and the sooner they go the better. It is true, no doubt, that society could be better off if the services of middlemen could be entirely dispensed with. But in modern society they are indispensable, because production has become varied, markets are international, and distribution has become so complicated that specialised knowledge and tact are required to deal with it successfully. Though cartels are resorted to, various sales organisations have been set up by combination of producers, consumer's co-operation is growing steadily, yet the

importance of middlemen remains as it is in our modern economy. As long as the present economic system continues, the position of middlemen will remain unassailed.

Kinds of Middlemen

There are various types of business intermediaries, amongst whom the following are more common.

(*i*) *Brokers* refer to persons who are employed to make bargains or contracts in business matters between two other persons. They receive a commission for their services, and it is called brokerage. They do not own property or goods, nor do they take possession of them, unlike a factor who can do so. A broker usually enters in papers conditions of the contract to be agreed between the parties, and sends them to seller and buyer. The note sent to the buyer is called the "bought note", and that to the seller, "sold note".

(*ii*) *Factor* denotes an agent, to whom goods are delivered by the principal. He is both the consignee and the commission agent. Unlike a broker he takes possession of goods, can sell goods in his own name, receive prices for them, and sue in his name for the same.

(*iii*) *Auctioneer* refers to an agent, who is authorised to sell the property or goods of the principal for cash by means of auction, private or public. He receives his remuneration either by way of reward or commission. He is expected to conduct the auction himself, unless authorised to get it done by others.

(*iv*) *Del Credere Agent* means that type of a commission agent, who guarantees the solvency of persons introduced by him to his principal. When any of these people fail to pay their dues for his purchases, the del credere agent is liable to indemnify the principal to the extent of default. He is only so liable, when parties fail to pay owing to insolvency or similar such financial stringency, but no liability attaches if parties do not pay willingly. In return for undertaking this extra risk the del credere agent is paid a higher rate of commission, known as the del credere commission.

A commission agent in business generally refers to an agent who undertakes to buy or sell on behalf of a principal in return for a commission, calculated at a certain per cent upon his total transaction.

Speculation: Economic Significance

In Economics speculation has a very wide significance. Since modern production is generally made in anticipation of future demand, all production may be said to be speculative. But modern economists tend to narrow down the significance of speculation to such operations or transactions, where profits are expected to be made out by differences in price movements. Speculation, usually, denotes a purchase or sale with a view to another re-sale or re-purchase at some future date, and, thereby, makes some gains by differences between prices existing then and in future.

Before assessing the real economic significance of speculation, a clear distinction should be made between legitimate speculation or speculation in the real economic sense, and illegitimate speculation or gambling as it is called. Speculation becomes gambling, when people having no knowledge of markets, generally, dabble in dealings just to make large profits. In such transactions, very often the speculators or gamblers lose their capital, and such transactions are purely unproductive.

Economic speculation denotes such dealings, which are undertaken, genuinely, to profit by price changes. This type of speculation is productive, and contributes to definite economic advantages.

By "arbitrage" operations, that is, by buying in one place and selling the same at the same time in another, or *vice versa,* speculators generally tend to eliminate price differences in two markets and, thereby, bring about a territorial adjustment of demand and supply of any particular commodity.

Speculations, generally, tend to stabilise price levels. Speculators buy when prices are low and, thereby, increase prices for the present, with a view to sell in future when prices would otherwise go up. In modern production there has grown

up a specialised class of people, who generally undertake the task of marketing the goods of manufacturers and they, by their special business instincts tend to maintain steady and stable prices, and, thereby, relieve manufacturers of risks of price movements.

Speculation means risk-taking in modern business. In modern business world, after production the commodities are usually passed on to dealers, who undertake risks of price fluctuations. Thus they relieve manufacturers of the risk of price movements. The producers can concentrate on production alone. Other risks of production can be covered against by various means like insurance and other institutions. The major risk of business is associated with price changes, and this is undertaken by the dealers, and hence modern production is smoothly carried on. The dealer buys from the producer, and sells in the market according to demand. He tends to adjust supply and demand. He is, therefore, performing the most useful function of speculation.

Speculation has rendered modern production feasible by arming the producer with an economic weapon in order to tide over the risks of his production. This is done in two ways. In the first place, it is generally the practice of manufacturers to contract to produce for future delivery. If prices of raw materials rise in the future, manufacturers stand to lose, and this risk he can overcome by contracting in the present to get his raw materials delivered to him in future at a fixed price. In the second place, producers generally undertake production for future market, and since prices of raw materials and manufactured goods tend to move in unison, manufacturers tend to lose heavily if prices of raw materials move against him in future. In order to insure him against such losses, speculation arms the manufacturer with a speculative transaction known as "hedging" as will be explained later.

Speculation, directed towards cornering the supply of a commodity, that is, when a few resourceful persons tend to control the supply of a commodity by artificial means to raise

prices, partakes of the nature of gambling, and then it is to be condemned from the standpoint of Economics.

Bull, Bear and Corner

An example of a *corner* is found, when a single or a group of influential persons aims at controlling the entire supply of a commodity in order to control its price. It is now well nigh impossible to find a perfect cornering of supply, because whenever prices in a particular area tend to go up, supplies from elsewhere pour in there. Now-a-days, a corner is generally found, when a single individual or a group of individuals controls supply to a considerable extent of a particular commodity at a specified area during a particular period.

A *Bull* generally refers to a speculator, who aims at making profits by means of constant buying, whereas a *Bear* aims at making profits by means of constant selling. Bull and Bear operators are very common in future markets and stock exchanges. A bull always starts buying futures, and when prices are sufficiently raised through his buying efforts, he will sell all his purchases at higher prices before taking actual deliveries. Similarly, a bear will continuously sell for future delivery, and when prices are sufficiently depressed through his selling endeavours, he will buy up the entire amount of his sales at a lower price before the period arrives for his giving actual deliveries. Thus a Bull and a Bear make profits out of price movements.

Arbitrage Operation

Different parts of the world are closely knit together by modern developments of transport and means of communication, and so are different markets of the same commodity throughout the world. Hence simultaneous transactions in the same commodity take place in various parts of the world at one and the same time. Operators or dealers try to make profits from price differences of the same article in different markets at the same time, and transactions as such are known as

arbitrage operations. Thus cotton has an international market. It is simultaneously dealt with in Calcutta, Bombay, Paris and London. Operators will buy cotton in places where prices are lower, and sell where they are dearer at the same time, and thereby make for themselves some profits out of the margin of differences in prices prevailing in different markets at the same time.

Dealings in Futures

Transactions in "futures" generally mean buying with a view to take delivery at some future date, or selling to give delivery at some future date. In either of these transactions, no actual delivery is taken or made, nor any contract completed for cash immediately. Contracts of either sale or purchase are usually completed at the contracted future date. This type of transaction helps the manufacturer to buy his raw materials for future at his known contracted price, and relieves him of risks of price fluctuations.

Sometimes dealings in "futures" may be purely speculative in nature. Future contracts of either sale or purchase are made not to be completed by actual delivery or acceptance of goods, but, simply, by cancelling the contracts at some future date by paying up the differences as they are called. Suppose A has sold to B cotton for three months' delivery; at the end of the period, if cotton prices go up, A simply pays to B the total differences in prices of cotton when contract of sale was made, and those prevailing at the time of ending the contract. On the contrary, if cotton prices fall at the end of three months, B pays to A differences in prices when contract was made and those prevailing at the time of fulfilling the contract.

This type of dealing by obviating the necessity for transactions to be completed by actual deliveries or acceptances of goods, may encourage gambling type of speculation. But, when it is made with a *bonafide* economic purpose, it tends to become a positive good for the society as in the case of hedging.

Hedging

"Hedging" generally refers to a speculative transaction which tends to cover the risk of another future deal. Thus, for example, a cotton manufacturer begins to produce cotton piece-goods by buying raw cotton at the prevailing market rates with a view to sell his manufactured wares, say, after three months. At the end of three months, prices of raw cotton and along with them, prices of piece-goods also register a fall, and the manufacturer will, apparently, be encountering losses. Now, in order to cover or "hedge" such risks of production, he usually resorts to an operation, called "hedging". This is done in the following way. The above manufacturer, at the time of buying raw cotton at spot prices for using it in production, will "hedge" the risks of his production by also selling raw cotton at the same time for three months' delivery. In other words, along with his spot buying of raw cotton he makes a counter forward sale of raw cotton. So, if after three months, raw cotton drops in prices, and also piece-goods in sympathy, the manufacturer's loss on piece-goods will be duly compensated for by his profits on the forward sale of raw cotton. Because he has sold raw cotton for delivery in three months, and now he can meet the delivery by buying raw cotton at lower prices than his sale price.

"HEDGING" is, therefore, a healthy economic institution, because it enables manufacturers to "hedge" or cover risks of their production, and assures them of normal production gains.

Terminal Market

Generally, in the produce or similar markets, there take place both spot and future transactions. Terminal market refers only to that portion of the market, where dealings in futures are made.

Questions

"The financial resources of producers are not adequate to carry the whole risk of price fluctuations as well as the expenses of production." Carefully explain this statement and show how the risk is borne in the modern business world. (B. Com. Cal., 1931).

2. Define speculation and show how it differs from gambling. Also carefully examine how far the speculator performs a useful function in the modern economic system. (B. Com. Cal., 1931).
3. What is meant by a "futures market"? What are its advantages and disadvantages? (B. Com. Cal., 1941).
4. Explain the services and dis-services which a Broker, or Middleman may render in the business world. (B. Com. Cal., 1941).
5. What are the different classes of agents? Explain the functions of each? What is "Del Credere" commission? Explain what benefit accrues to a merchant through its payment. (B. Com. Cal., 1923)

CHAPTER X

ADVERTISING AND SALESMANSHIP

Advertising: An Economic Institution

In Economics advertising means the art of making known to the public either the existence of the supply of a commodity, or of a want. Since it is not wise to give publicity to any want, except in a personal sense like advertising for a job or similar such object, we shall be concerned here with the other type of advertisement.

The modern economic world has become so large and complex that the act of publicity and advertising has been entrusted in the hands of experts who specialise in the art of advertisement. It, therefore, involves selection, as modes of advertising are many. Since advertising costs are ultimately transferred to the consumers in forms of higher prices, it is often misconstrued that advertising is uneconomic. This is not true. Whether advertising is economic or otherwise will depend upon its results. Advertisement is generally made with three objects, namely (*a*) to create a new demand, (*b*) to increase an existing demand, or (*c*) to transfer the realisation of a demand from one producer to another. In case the first objective is fulfilled, it is definitely a productive institution; when publicity is directed towards transferring the clientele from one producer or supplier to another, it is not entirely an unmixed harm, because it tends to keep competition intact, and as such acts as a safeguard against a monopoly. So far as advertising tends to increase an existing demand, it is definitely an economic institution. Such advertisement is usually made in case of commodities, the production of which is made under the law of increasing returns, and, consequently, whatever additional expenses are incurred are compensated for in reduced costs of production. Because increased demand results in increased pro-

duction under a system of large-scale production, costs are reduced, and ultimately prices instead of being increased are generally reduced. It generally helps the consumer to make a selection out of a variety of competitive objects. Advertisement leads to grading of quality. By thus increasing an existing demand or creating new wants, advertisement performs a useful creative function.

Advertising has its origin in very early times. Formerly, advertising was done in a haphazard way. But now more scientific ways of advertising are resorted to. As in other spheres of economic activities, here also the problem of advertising has become very complicated. There are so many ways of advertising, but as each process is costly anybody who wants to advertise must select how to advertise. In so selecting he is guided essentially by two main motives, namely, (*a*) to spend minimum on advertising and (*b*) to obtain maximum results. Modern scientific advertisement consists in selecting media of advertisement which involve minimum expenses with maximum results. There is also a definite plan underlying a scientific advertisement. A scientific advertiser knows exactly his mind. He knows how to advertise and where and when to do so. That is why modern advertising has been entrusted usually to specialists in this art.

Advertising in some cases has resulted in reduced costs of production from the standpoint of the manufacturer. It has now helped the manufacturer to dispense with the services of a number of salesmen and other agents, as advertisement can be made to do their services more effectively.

Advertising has also to a large extent made the position of a manufacturer more secure and stable. In this modern economy, a manufacturer has to depend mostly upon wholesale and retail dealers for the marketing of his products. He hardly knows his consumers. Advertising has helped him considerably to get into direct contact with consumers. He can now reach the consuming public by means of advertisement and propaganda, and his precarious dependence upon middleman is thereby minimised.

Disadvantages

However theoretical they may be, certain disadvantages of advertising have been pointed out. When advertisement results in taking away customers from one businessman and giving them to another, it is condemned as sheer waste. Though it is true to some extent it has also its merits therein. In this way it tends to keep competition active. It thereby leads to keeping up of quality and grade of products, and tends towards gradual reduction of costs and prices through repeated innovations and improvements.

A few theorists used to believe that multiplication of human wants and creation of new objects of consumption are waste and detrimental to human good. This is now held to be an erroneous conception. The modern conception of human progress and welfare consists in the dynamics of production and consumption. Production should be multiplied and variegated, new wants must be created, new habits ought to be formed, consumption must always keep pace with production. Hence, if advertisement creates new wants and develops new habits, it can no longer be said to be doing any unsocial or uneconomic activity.

Though there are examples where unscrupulous traders and dealers exploit public patronage for their shoddy and inferior goods through artful advertising and publicity, their success is short-lived and temporary. No good businessman can afford to do so. It is the permanent custom which a businessman hankers after. Any dishonest use of publicity can never lead to lasting success.

Forms of Advertisement

As there are various methods of propaganda and publicity, the type of advertisement which one should use will depend upon the nature of the commodity and that of the clientele.

Press

Press publicity is one of the most popular forms of advertisement and expensive, too. Press is again of two kinds, namely, *General and Special Press*. An advertiser will select forms of

press publicity according to the nature of (*a*) his goods, (*b*) customer, and (*c*) costs. Thus, for example, if the article is of general consumption, then it will pay one to advertise in a general press like *'The Statesman'* or *'The Amrita Bazar Patrika'*. But a chemical instrument should be advertised in a special journal dealing in chemistry and circulating, mainly, amongst the chemists.

If any thing is specially mentioned about a commodity in an editorial column or "news" of a paper, it is known as *editorial publicity*, which is rarely done, and is very expensive as well.

Press publicity, again, may be made by daily papers or by periodicals and magazines, which are issued weekly, fortnightly or monthly. Both kinds have their own merits. Through a daily it is possible to repeat an advertisement constantly, and thus popularise an article amongst the general public. An advertisement in the daily press should be sufficiently repeated in order to be effective. A periodical has an advantage in the sense that it is read for a longer time. It is kept on the table for a pretty long time. As periodicals are read over a longer period, an advertisement is likely to be noticed some day or other. Daily papers generally circulate within a particular country, but a periodical or a magazine may be circulated over several countries. Hence, books which command a world-wide market may have good publicity if they are advertised in magazines.

Window and Outdoor Display

In both these forms, the principal aim is to catch the eye of the public. Many shops resort to good *window display* as an effective method of enhancing sales. *Outdoor display* includes *poster advertising, sky-signs, exhibitions* and kindred other things.

Fairs and exhibitions are also good media of publicity. Exhibitions may be local, national, or international. This kind of advertisement pays very well in the case of things of comfort and luxury, *e.g.*, motor cars ; in case of commodities of inter-

national use, *e.g.*, engines and machinery ; in case of new inventions and discoveries.

Outdoor display by means of posters, placards, moving figures, electric switch lights, cards fixed in trains, buses and trams, kiosks, etc., is popularly used as a suitable medium of advertisement. In the case of these types of publicity, care and attention must always be taken to make the copy of the advertisement very brief, attractive, appealing and inoffensive. In order to prevent obscure, objectionable or indecent forms of such advertisement in England and America, there are Posters' Unions working in both countries. They generally supervise and control such types of publicity. These media of publicity are very successful in the case of goods of general use. They generally appeal very effectively to the masses. Hence, they pay in the case of cinemas, theatres, patent medicines, tooth paste, soaps, foodstuffs, etc. Usually, these advertisements are often accompanied by pictures, which speak volumes. Thus for example, the picture of a man blindfolded spotting a particular brand of drink by mere taste of it is a very suggestive advertisement.

Cards fixed in trams and trains generally attract the attention of the passengers some day or other. People when travelling generally look round and read the advertisements, just to spend the time.

Advertisement by means of electric switch lights are very common in any big city. They are expensive, but they are worth while if done in busy thoroughfares. The "Neon Sign" advertisements are less expensive than switch lights and are fast becoming popular.

These types of outdoor advertisements are very effective in the case of goods, which are simultaneously advertised in press and paper. If people see any advertisement cursorily in the newspaper, its counterpart again in the tram or train will focus his attention quickly and forcefully.

Shops, particularly departmental stores emphasise the need of window display. Articles are generally placed behind well designed and decorated windows, very often flashed by coloured

electric lights. Generally, articles of new designs and fashions are displayed in the window. Very often prices are also attached to them in order to make them more attractive. Cases are very common when people have been converted into buyers by seeing the articles in the windows even though they might not have any intention to purchase at that time. Goods especially of individual taste and fashion like dress and wear are more successfully advertised through this medium.

Many shops including departmental stores now commonly advertise by holding seasonal "sales", when special reduction is offered in prices. This method should not be abused. Some firms have started holding "Sales" very frequently, and they do not even offer any special reduction in value for their articles, and the result is that the public are losing faith in them.

Theatres, Cinemas and Amusements

Places of amusements are often utilised as media of advertisement. Generally, during or after intervals or even in between pictures, films narrating a short sketch of an advertisement are exhibited. Programmes in amusement places are quite useful methods of publicity. At intervals or after going home, people generally read theatre programmes, (which they very often take home) and every advertisement in them tends easily to catch the eyes of the readers. Such advertisements when read in the actual places of amusement always tend to have good appeals. Care should, however, be taken to prepare advertisements which are to be inserted in amusement programmes. People go there for enjoyment, and hence the texts of such advertisements should be written up in a way, which will be pleasant to read and enjoy. They become very effective, when they contain words of humour and fun. The recent practice of incorporating in such programmes topical songs is commendable, because this induces the people to preserve them.

Film Publicity

Cinema is a fashionable hobby in these days and naturally provides with a very suitable medium for advertisement. The

modern cinema talkies also give an opportunity for advertising by means of suitable selling talks.

Radio Broadcasting

Radio broadcasting also is a great medium of publicity and is largely utilised as an advertisement technique in America. In this publicity also, attention should be paid to make the advertisements very pleasant, illustrative and entertaining, because people generally switch on their radios during leisure for the sake of entertainment.

Co-Operative or Group Advertisement

This form of publicity is generally resorted to by association of firms, groups of companies, cartels or trusts in behalf of all their members. This group advertising as distinct from competitive advertisement is economical. The Indian Life Offices Association, for example, is now advertising for insuring with Indian companies.

Prospectus and Catalogues

Business firms quite oten issue prospectuses and catalogues. They should contain detailed description of the articles advertised, and should also give the price quotations. In order to make them presentable, they should be carefully prepared. A neat get-up is essential. In order that these can be preserved for sometime, it is necessary to have them printed in good paper, beautifully bound and artistically jacketted. Some firms even make them in such a way that the public do not find much difficulty in preserving them, *e.g.*, attaching hangers and kindred other things to them.

Circulation

Advertisement and publicity are very often resorted to by businessmen through circulars and letters. Circulars canvassing for the goods are issued to customers. They may be distributed by means of leaflets and pamphlets, or posted to people. They must be briefly worded, should be interesting to read and very effective in appeal. Sometimes booklets are utilised for this

type of publicity. Generally this kind of advertisement is popularly used by firms who cannot afford to go in for expensive press publicity. It is also likely to be very useful for tapping areas where people do not usually read magazines or newspapers. Cinemas, theatres, circuses, etc., commonly practise this kind of advertisement, because customers are mostly local. Leaflets are commonly circulated by beat of drums in order to attract the attention of the public.

Samples and Coupons

Manufacturers and merchants often resort to the practice of distributing free *samples and coupons* to advertise their wares. It is also the custom of several dealers to allow *discount and rebate* over purchases, provided the latter reach a certain minimum. Firms now advertise by presenting people with free calendars, knives, weights, diaries, etc.

Trade Marks

It is often found that the very name of a particular commodity is itself its own advertisement, *e.g.*, the Gold Flake Cigarettes, Horlicks and Bovril. Legislation has given protection to producers or dealers of a particular commodity, which has already established a good reputation. The name of any particular commodity can be registered under what is known as a *"Trade Mark"*, and once a "Trade Mark" is registered, it can no longer be used by anyone else.

Technique of Advertising: The Copy

A copy refers to the text or contents of the advertisement. In its preparation great tact and ingenuity are required. The success of an advertisement depends upon its ingenious make-up. Though the preparation of a copy will depend upon its special conditions in each case, generally the following elements should always be borne in mind in preparing a copy.

Suggestive and Conviction Value

The wording of an advertisement should be always drafted in a concise and precise manner. It should be written in a

simple and lively style, so that one can easily understand it. Suggestive pictures may also be used, whenever necessary. Both words and pictures must be so given as to convey suggestive and conviction value. The copy should suggest immediately that the goods advertised should be profitably used. Thus for example, "Ovaltine for sleep" if constantly repeated will give the reader an impression that Ovaltine may be worth using. Wording should be politely phrased except in special cases where commanding note may be useful, *e.g.* in case of an examination, "Join Accountancy classes in Joseph's College for passing R. A. examinations". Pictures, when given must be attractively and delightfully designed, so as to appeal to prospective buyers. In all events, any repulsive language or picture must be avoided. When an advertisement is given along with others in the same line, it must be convincing. That is to say, the advertisement must contain words which will at once prove the distinctiveness and merit of the particular goods. Otherwise, to give an advertisement in the ordinary way along with other competitive ones is a mere waste of money and energy. This is why commercial firms, if they can so afford, prefer a full page advertisement in order to avoid competitive advertisements to be inserted along with it in the same page.

Attention Value

The copy should be so designed as to possess very great attention value. The attention of the public should be at once drawn to the advertisement, be it in words, pictures or both.

In order to attract attention, generally every advertisement should have some very peculiar characteristics. Types properly selected can go a long way in focussing attention of the public upon it. Sometimes, blank spaces surround an advertisement in order to make it attractive. Reply coupons especially in triangle forms are very often attached to a coupon in order to attract attention. Whether goods advertised should carry price quotations depends upon the circumstances of each particular case. If the advertisement is meant to attract wealthy people, it is better not to insert price lists. Price quotations, however, can

be always given, when there is some special reduction in them as in the case of a "Sale". Thus we find that prices are commonly quoted in "Whiteaway's Sale", "Hall and Anderson's Sale", "Army Navy Stores' Sale" and so on.

A properly worded and composed headline may also go a long way in adding to the attention value of an advertisement. A very common method of attracting attention is to demonstrate in actual figures or pictures the utility and beauty of the wares, advertised. This is very effective in dressmaking, drapery, fashion and similar such lines. The get-up and lay-out of the copy should be attractively designed. They must be pleasingly appealing.

Colour is very often resorted to for attracting the public. Red, yellow, blue and black colours are generally used. In street advertisements, we generally find that switchlights and moving figures are very effectively utilised. Now-a-days, variegated colours are exhibited ; "Neon signs" designs are fast becoming popular for making advertisements attractive. This kind of advertisement is specially effective in the case of foodstuffs.

Some catchy pictures or phrases are very often resorted to in a copy, but in such cases, proper care should be taken to see that the sentiments of the public may not be injured.

Repetition Value

It is not enough simply to make the copy attractive, suggestive and convincing. It must be remembered that the effect of an advertisement is lost if people forget all about it. Hence, it is necessary so to design the lay-out of a copy as to leave a permanent impression upon the minds of the public. This can be done in two ways, namely, either by (*a*) giving to the copy some unforgettable touch of novelty or design, or by (*b*) constant repetition. If an advertisement is constantly repeated, it always keeps on to the public mind. People become very familiar with the commodity advertised by constantly coming across it in some press, poster, place or elsewhere. Once a commodity comes to be familiar, it easily becomes a good seller.

Sentimental Value

Sometimes, the sale will depend upon the sentiments of the buyers, and in such cases, the advertisement must appeal to such sentiments. In matters of foodstuffs, the sentimental value counts to a very great extent. The success of a restaurant depends upon its cleanliness and good behaviour. Good people will patronise a place where they will find good and clean food, and satisfactory service. At the present moment Indian people are patriotically bent, and they prefer Indian goods to foreign brands. Hence, any Indian manufacturer in advertising his wares must never forget to say in his advertisement that his goods are purely national, employing Indian capital, labour and organisation. This patriotic sentiment is now being exploited by the foreign industries who have started their factories here and they advertise their wares also as Indian goods.

Instinct Value

Human beings are guided largely by instincts and inclinations. Hence, if an advertiser takes note of instincts in preparing his copy, he is likely to achieve good results. Advertisement for food and drink should appeal to the self-preservation instinct of mankind. Banks, insurance companies, and kindred financial institutions may succeed to a large extent if they can tap the hoarding and saving instincts of individuals. It is held that hoarding and saving instincts are more or less universal in mankind. Sporting goods, rifles, guns, etc., may be successfully advertised for by appealing to the hunting instinct of individuals. Generally, it is found that traders in baby's dresses, toys and requisites get along quite well by advertising through copies, which appeal to the parental instincts. Parents have inherent sympathies and love for their children. Curiosity is also a strong instinct with the majority of people, and hence some advertiser tends to advertise on the plea that the goods which he advertises will be able to satisfy new curiosities and desires.

In preparing a copy, the advertiser will be guided by the fact whether he wants to advertise the firm in general, or any

particular commodity of the firm. When the firm in general is properly given publicity, it is known as institutional advertising.

Educative and Creative Value

The educative and creative values of an advertisement are very great indeed. When any new object or invention is to be popularised, the copy should be made sufficiently educative and informative. It should contain in precise and concise manner all the utilities of the advertised object. It must be able to explain fully to the public the usefulness of the object advertised. Thus for example, the advertisement of a refrigerator in an ordinary town of India should contain a full information explaining its usefulness. The advertiser in such cases must aim at creating in the people a new want for his advertised article. The educative and creative values of a copy become still more important in the case of an article which is meant to substitute an existing competing commodity. It is then a question of changing the old habit for a new one, and it is a difficult job. Thus, for example, if people are used to buying "Austin" motor cars, some new cars like "Fiat" want to capture the market. Then the "Fiat" company has to explain all the merits of its car, and prove to the public through its advertisement that its car will be as good as an Austin if not better. The new company is not likely to achieve any result unless it follows a consistent and repeated advertising campaign, which will be sufficiently educative in its effects. Sustained publicity is required to create a habit, more so in changing an old habit for a new one.

Internal Publicity

Many firms have earned for themselves publicity and propaganda by preserving an up-to-date office, efficient and pleasing staff, and smart correspondence. In other words, once a firm has created a goodwill for its honesty and service, the goodwill tends to serve as its great advertisement.

Publicity of a firm also depends very often upon its *salesmen,* who can by their personal touches create for a firm an enduring and worthy publicity.

Keying" in Advertisement

In the modern economic world, a producer or a merchant is confronted with alternative sources of advertisement. As it is not possible to advertise everywhere, an advertiser once he has selected a particular mode of advertisement must always discover the results of its advertisement. In assessing these results, an advertiser usually gives a "key" with every advertisement by following which he can know its results. "Keying" may be done by (*a*) means of *different addresses, e.g.,* The Bata Shoe Company may give different addresses in different papers, and as enquiries come they can find out the sources by tracing different addresses and (*b*) giving different departments in different papers, *e.g.,* Department A, B and so on. A key may also be given by attaching a *coupon* with an advertisement, and requesting that all enquiries should be accompanied by the coupon. Sometimes, the advertiser may give the advertisement with a request that in replying, the name of the paper where advertisement is found should be mentioned.

Follow-up System

Simply advertising is not effective, unless attempts are made, to make a full use of an advertisement, and this can be effectively done by what is technically known as a follow-up system. After an advertisement, generally, enquiries follow and are replied to. A businessman should make an index of enquiries, and each enquiry should be followed until it results in an order. Generally, a follow-up system means that to an enquiry a reply is sent, and if nothing is heard of for sometime, then follow-up letters should be continuously sent, until actual results emanate, or the enquiry is finally disposed of.

Salesmanship

The art of salesmanship consists in selling successfully goods or services. In modern era of competition, salesmanship

is particularly useful in almost every line of business. It is the duty of a salesman to point out the distinctive merits of his goods, and induce people to buy them out of a variety of competitive products. It also serves the purpose of effective advertisement for a firm. This is known as personal advertisement. Salesmen sent out throughout the country may successfully popularise a particular brand, and make it a good seller. Various kinds of advertisements accompanied simultaneously by means of propaganda through an army of salesmen generally obtain good results. When people generally see an advertisement before they are approached by salesmen, it becomes easy for them to induce the people to buy the goods.

Salesmanship and Psychology

Salesmanship and psychology are intimately inter-linked. In order to become a successful salesman, one must have a thorough knowledge of psychology. A salesman generally plays upon the mind of the customer through various ways before influencing him to his viewpoint. The duty of a salesman is to sell his article. Immediately a salesman meets a customer, he will attempt so to influence the mind of the latter that his goods may be sold. The salesman must at once study and understand the mind of a prospective buyer. Afterwards, he will act in such a way as to convert easily the customer to his viewpoint. This is indeed a difficult task. Some customers will come determined to buy altogether a different type of a commodity, then it will be the task of the salesman to change his mind and sell him his own article. This is indeed very difficult. In order to do so, a salesman must possess a thorough knowledge of his own goods. In influencing the mind of a customer, a salesman must proceed very slowly and courteously. He will have to assert his own personality without giving any air of superiority. He must not try to be more intelligent than the customer. He must not use any offensive or objectionable language. It is human weakness to think that he is always important and superior, and every salesman must always be careful to see that this instinct is never impaired. No customer will stand a salesman who tries

to be superior to him. The salesman should influence the mind of the prospective buyer by a slow process of admiring his judgment and taste without any flattery. Genuine admiration always wins a man. The salesman goes a long way by his polite manners and gentle words. His behaviour and personal charm will exercise a very great influence upon the mind of any buyer.

Criteria of Salesmanship

A successful salesman must possess a thorough knowledge of psychology. He must have a good education and a pleasing personality. Good and polite manners are indispensable for a good salesman. He should always wear neat and clean dress. He must make a good impression to start with. A salesman must always bear a good appearance and greet prospective customers with a smile.

Salesmanship is very important in retail business. A retail shop depends to a large extent upon its salesmen for its success. In order to be a successful salesman in a retail store, a salesman should possess among others the following qualities and characteristics.

In the first place, he must know his articles thoroughly. He should always possess a good knowledge of his business in general, so that he may answer any question in connection with his trade quite smartly.

Immediately a customer enters a shop, a good salesman will at once greet him, make him comfortable and inquire if he can be of any service to the customer. When the customer wants to see any article, the salesman should at once study his wants and capacity to buy, and then show him the goods accordingly. It is always safer to start showing average priced goods. At no stage, the salesman should decry any goods of any quality. He should only point out merits of each brand. Varieties of articles should be shown without any irritation until the final choice of the customer is made. The salesman should try to emphasise that special quality of the article which is likely to appeal to him most. If the customer loses temper or shows any

unreasonable attitude, it should be always tolerated. If he puts any objectionable question, it must be politely answered.

Generally, a customer may raise several objections. He may argue that prices are cheaper elsewhere. The salesman then should answer that his goods are likely to be of a better quality. If the customer wants to try any other place before making a purchase, the salesman must tackle the matter in a clever and polite manner. He may say that he will keep the article reserved for the customer, or he may point out gently that by postponing the immediate purchase, some other people may take it away. It is always a very good practice to allow a customer to make a selection out of a variety of goods. He should be given full and free opportunities of examining the article from every angle. If necessary, a customer may be allowed to take the article home for approval. It always impresses the customer, if he is allowed the option of returning or substituting the article in case it proves to be unsatisfactory. Be it remembered that, at no stage, a salesman should decry his rival shop, because it tends to create a bias in the minds of customers. A salesman should always stress the quality of his goods and services.

The Press and Printing Processes

It is necessary for an advertiser to be acquainted with the underlying principle of the technique of printing. He should know about the types, their arrangement and lay-out. The compositor should be properly advised as to how he should prepare the copy for printing. The printer ought to be instructed what types he must use for heading or display matter. One must know that types are measured on what is called the "point system". One inch is sub-divided into 72 points and the following word "Mind" is shown in one inch type, consisting of 72 points.

MIND

It should be noted that in counting the points, the height of the body of the type is measured. When the type is said to be of 10 points, it refers to the body of the type and not the face of the letter, which is generally of same size in height. As for example, the face of a 10 point capital M is nearly 8 points high, the rest being taken by what is called the "em" of the type, indicating the square on which the type is put, while "em" is one half of the area of an "em" in width. A lead means a slender strip of metal inserted between the lines of types to make space and lend to the printed material an open appearance. If two leads are put between the lines, the type becomes double leaded and the type is known to be solid if no lead is used. The thickness of leads may vary from 1 to 3 point leads and it is desirable to advise the compositor as to what point of lead should be used. Types are usually of two kinds *e.g.*, display and body types. Display types are again sub-divided into condensed 10 point type, bold medium type and bold extended type.

CAPITAL
CAPITAL
CAPITAL
CAPITAL
CAPITAL
CAPITAL

Body types may be old style Roman and modern style Roman, the former being more popularly used. The actual design of the type is named "face" and each is known by its name. Faces are sub-divided into series and the series are known as family. Types of the same family mean those of associated faces. Types are supplied in founts and a fount of type holds the proportion of various letters of the alphabet along with numericals, punctuation marks, etc. Every face possesses its fount of complete types. Type can be set either by hand or by machines. There are two kinds of machines *e.g.*, "Monotype" and "Linotype", used for setting types. The "monotype" produces individual characters or combinations of characters,

HOW TO CORRECT PROOFS

Between words means, amend, equalize and improve the spacing.

After a word or syllable at the end of a line. This appears bad, move to the preceding or following line.

L or] On either side of a word. Centre this word or group of words on the measure.

Between letters or words. Transpose these letters or words.

new Par or N.P. Start a new paragraph where indicated by ¶

Indent line one em of size of type used.

Between two paragraphs. Run on, or put these two paragraphs into one paragraph.

Round the beginning of the first word of a line. Start this line where the perpendicular lines are.

Between lines near the bottom of a page. Take these lines over to the next page.

Under fl, fi, ffi, ffl, ct, or st. change for a ligature, fl, fi, ff, etc.

Between lines near the top of a page. Take these lines back to the previous page.

l.c. Change to lower case.

s.c. Change to small capitals.

Put colon.

/en/	Put en dash.
?/	Put interrogation mark.
⌐¬	Raise to proper position.
∟⌋	Lower to proper position.
□□	Indent 2-ems.
□□□	Indent 3-ems.
⊥	Push down this lead or space.
X	Battered type; change.
||	Line up; that is, make the lines even with other matter.
∧	Make correction as indicated in margin.
⌒	Join these letters in a logotype, as œ, æ, etc.
═	Straighten lines, or type out of line.
caps.	Change to capitals.
rom	Change to Roman.
b.f.	Change to bold face.
ital	Change to Italic.
,/	Put comma.

	Under word, "Place this in small caps."
	Under word, "Place this in bold-faced caps."
	Under word, "Place this in bold-faced caps and lower case."
stet	Retain crossed-out word or letter.
out—see copy.	See the copy for an omission here.
	Under a cancellation, indicates "Let it stand"; used along with "stet" in the margin.
run over.	Run this word or syllable on to next line.
run back	Run word or syllable back to the preceding line.
	This mark, the dele, indicates "Take out the crossed-out type, word, or sentence."
	Take out the character indicated and close up.
no ¶	No paragraph; sometimes indicated "run on."
tr. or trs.	Transpose words or letters as indicated.
w. f.	Wrong fount; make proper fount.
O or Spell out	Spell out the enclosed word or words.
;/	Put semicolon.

How to Correct Proofs

Under word, "Place this in italics."

Under word, "Place this in caps."

¶ Begin a paragraph here.

run on Make no break in the reading.

Insert apostrophe.

Qy. or ? Is it right ?

Insert quotation marks.

Eq. # Equalize spacing.

Upside down; reverse.

Insert space here.

Close up—no space.

Move this to the right.

Move this to the left.

Put period.

Put one-em dash.

Put two-em dash.

Put hypen.

while the "linotype" casts types in width of requisite measure. Machines are also employed for mechanical setting of display matter. "Intertype" machine is used for producing a compound material. The "monotype" and "linotype" machines cast their types in a mechanical process and put the types thus cast automatically into correct positions in which they are composed. The machine puts the type line by line and immediately a line is finished it automatically makes the necessary movement for starting another line. In a "Linotype", the material is cast in lines or "slugs" and the advantage of such setting consists in the fact that the material is produced, cast and assembled quickly and there is little chance of getting mixed up by accident as it is a solid line, unlike in the case of a "Monotype". Although in a "Linotype" it is difficult to correct an error, an expert mechanic generally makes corrections by dropping a hand-set character after cutting off a letter from the line, outturned by the "Linotype".

It may be noted here also that Roman types are distinct from Italics, and one should indicate to the printer as to what types must be used. Thus "Roman" will indicate Roman types and "Italics", Italics.

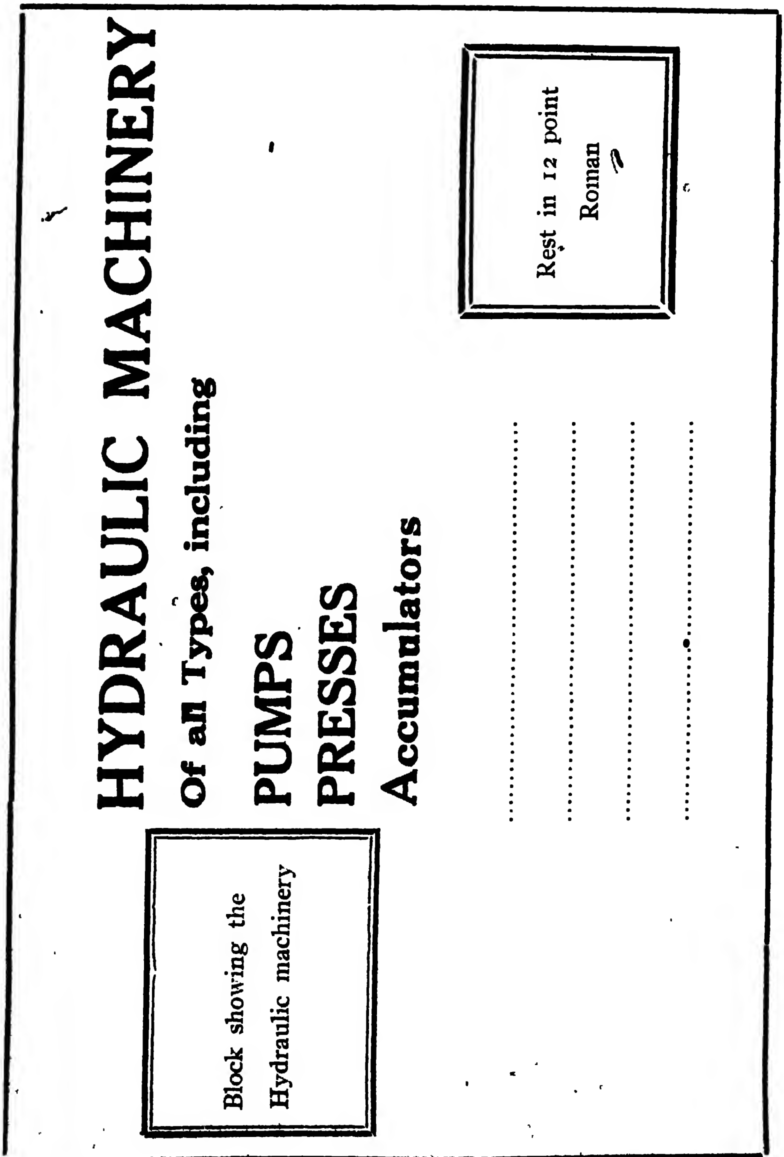
In selecting types, one should bear in mind that the general public do never consider details of type construction. They read by word and not by individual letters. Hence a legible type gains much of its easy reading qualities from the manner in which its letters combine, each with the others, to form smoothly flowing word groups.

Preparing a Lay-Out

The lay-out is prepared for the guidance of the printer or compositor and it refers to the arrangement of the matter in the copy of the advertisement, including illustration, picture, block or trade mark. The lay-out should be so made as to give a rough picture of the form, which the advertisement will take. In the lay-out, instructions are given in the margin by drawing a ring as to the size and class of type to be used and also where the block or picture should appear. It should clearly indicate

the depth and width of the advertisement and if any block is to be used, it is preferable to paste on it an impression of the

6" SPACE LAY-OUT



block or at least the block should be indicated in the lay-out by drawing a square at the spot where it should appear. If more than one blocks are to go in, they ought to be numbered and indications may be given according to the numbers thus made. Borders, if any, should also be indicated by drawing the same in the lay-out in correct position by ruler and pencil. It is also necessary to indicate the size of the type and the space to be occupied by body types and if faces of types are known, they may be indicated as well. The lines can be indicated by filling up the space with pencil lines in accordance with the width and measure of the body matter concerned. A specimen of a lay-out is given above.

Glossary of Printing Terms

Advance sheets	Sheets of a book or journal sent before their formal publication.
All in Hand	Copies have been given to the compositors in full.
All Out ..	The copy of type is finished and the compositors have nothing to go upon.
All Up ..	The copy is ready in proper order.
A. P. ..	Author's proof, i.e. printer's proof sent to the author with the manuscript after corrections have been made by the proof reader for his final confirmation.
Antique	A German term for Róman types.
Author's corrections	The author makes changes in his original manuscript after it is composed and for this usually an extra charge is made by the printers.
Backs	The inside margin of a book, i.e. on the side of binding.
Bleed	When the book has been cut down or trimmed so closely that the actual print has been cut or mutilated.

Bold face	Abbreviation for this is indicated by b.f. meaning a type with a heavy face.
Body Matter ..	The portion of the advertisement or print set up in body types as opposed to display types.
Caps or Small Caps ..	Capital or small capital letters.
Casting off	Measuring what space may be taken up when set in type.
Chase	This is an iron frame into which all the composed type is locked and got ready for press.
Cloth Boards ..	Books bound in cloth cases.
Clean Proof ..	Proofs with very few corrections.
Colour Forme ..	A forme to be printed in colour to register with a black forme.
Colour Type ..	Other name for outline type.
Collate	Examination of printed sheets of a book to see whether all are in regular order.
Crash Finish ..	Papers with rough surface and look like crash, a dress fabric.
Cut Out	Half-tone print from which the background is so shifted that the figure is left clearly outlined.
Cut Off	Measuring the amount or space which the copy will take when set up in type.
Delete	Proof-readers' mark indicating that the matter must be removed or taken out.
Dirty proof	Proof with many errors.
Distributing ..	Replacing types in various boxes after the printing is finished.
Display	The technique of arranging types in such a way as to attract attention.
D/c.	Double column.

Double-leader	Matter with two leads or strips of metal which are generally inserted between types.
Duplicate or Dup	An extra facsimile proof sent with the official proof when two proofs are necessary.
Dummy Copy	A copy of the book or pamphlet made with blank pages of the number likely to be covered by the book in order to show the probable size of the book.
Edition de luxe	A French term meaning large paper editions of nice books.
Electrotype	A copper covered duplicate of block matter or type. This is prepared of the height of the type with a wood or metal base. It is also known as "electro."
Errata ..	A printed list of errors with pages in a publication to draw the attention of the reader.
Etching ..	A process in which zinco surface for printing or half-tone is produced.
Even Page ..	Even numbered page, e.g., 2nd, 4th, 6th, etc.
Face ..	Printing upper surface of a type or a zinco or halftone or any other printing plate or block.
Follow copy	It means that the exact wording and punctuation must be followed or copied similar to the copy and printer is given no discretion in this detail.
Foot-note ..	It means that which is to be printed at the foot of the page to which it relates as a note.
Forme ..	Types, blocks, etc., locked up in printer's chase for being put in the

	press for printing or in the foundry for duplicating.
Fore-edge ..	.. Outer margin of a book as distinct from head or tail.
Full Bound .	.. A book fully bound in leather.
Full Point ..	.. The printer's term for a period.
Galley proof	.. Proofs in slip forms which are to be made up in pages ; or the first proofs of the composition before they are put in pages. It is also called "In Slip."
Galley ..	.. A three-sided tray in which the compositor places the types which he has set up.
Gilt tops ..	.. It means the tops of the book which are bound and gilt for saving them from being soiled by dust.
Half bound	.. Signifies partly in leather with cloth or paper side.
Half-tone ..	.. Indicates Photo-engraving in which the relief lines are produced through the etching of a plate which has received the photographic picture by means of a fine rule glass screen having from 50 to 200 lines in the inch.
Hair spaces	.. Thinnest metal type space in use.
Hanging par	.. A paragraph in which the first line is projecting on the left. It is also known as hanging Indention.
Heads ..	.. Top margin of books, and indicating margin at the top of the page.
Imprint ..	.. The name of the publisher or printer at the end of the printed matter.
Initial letters	.. Large capital or ornamental letters generally used to attract readers' attention in the beginning of a chapter or an important paragraph.

Inset ..	A sheet or section of one or more leaves inserted or placed in between regularly folded pages of a book ; also termed insert.
Insertion ..	Additional copy which is to be placed in the original copy or proof but was left off by accident or otherwise.
Jobbing Room	Composing room of a printing office where jobs are set as distinguished from book or newspaper department.
Keep Standing	An order issued to the printer not to distribute the types as they are likely to be required for reprint.
Kern ..	The back of a type overhanging the body as in case of "f" in italics.
l.c. ..	Lower case.
Letter Spacing	Extending words by placing space between each letter.
Leaders ..	Dots or hyphens inserted at intervals to guide the eye across a blank line to price figures, folios in table of contents, etc.
Ligature ..	Two or more types meaning two or more letters which are cast of one body to prevent the breaking off of kerns or other overhanging parts of the letter or also called Logotype.
Line Drawing ..	A drawing which consists of solid back and white elements prepared by a brush or pen.
Line Block or Line Zinco	Block which has been reproduced in solid black and white.
Linotype	A type setting machine casting complete lines.
Lithography ..	The art of reproducing printing matter from a flat lithographic stone, or a

	metal plate on which a transfer of drawn design has been prepared.
Live Copy ..	A manuscript to be made into type.
Make-up ..	To arrange typed matter into pages.
Matter ..	Type which has been set.
Measure ..	The width to which the typed matter has been set.
Middle leads ..	Leads of 2 points in thickness and are so named as they come between thin leads and thick leads.
M. S. ..	Manuscript ; plural MSS.
Monotype ..	A type setting machine which casts individual letters and characters.
N. R. M. ..	Next reading matter.
Nickel type ..	A type which is moulded electro by putting the mould in a bath containing nickel solution. This gives it the shell of nickel and afterwards it is placed in a copper bath so that second shell is formed of copper. Hence the type gets harder wearing quality.
Nickel faced ..	Stereo with nickel facing in order to give it long life.
Nonpareil ..	Six point types generally used by newspapers for reading matter.
Odd page ..	Contrary to even.
Offcut ..	The part of a sheet of paper which is to be cut and wasted when a size which exactly fits in the page or number of pages for printing purposes cannot be obtained.
O.P. ..	Out of print.
Open Spacing ..	Wide spacing between words and lines.
Overrunning ..	Re-arranging lines of types in order to improve spacing arrangement or allowing words to be put.
Out ..	An omission mark in the copy or proof.

P.	Abbreviation for page ; plural pp.
Pica	12 point type. Six lines of pica set solid are equal to an inch.
Quoted paper ..	Paper used for half-tone work which possess a very fine, hard and smooth finish.
Quarter Bound ..	Books bound with back made of leather only.
Run on	No paragraph is wanted.
Running title ..	The title of the book put on top of every page.
Run Round Block ..	Types set to surround a block.
R.P.	Reprint.
S. C.	Small capitals.
Script	Types prepared in imitation handwriting.
Solid matter ..	Types based without lead.
Stet	It is used to indicate to the printer to ignore any correction which has been made by mistake in the printed matter.
Take	A portion of matter handed over to a compositor.
T.C.	Till countermanded.
T. a.w.	Twice a week.
Text	The body of a book as distinct from notes, index, illustrations, etc.
Thin leads	Leads 1½ points in thickness.
Thick leads ..	Leads three points in thickness.
T/Col.	Top of a column.
Transpose	To change the order of words or types.
Type high	Exactly the height of a type.
Ungathered ..	Books delivered to binders in sheets.
White	Space between any lines or groups of types.
Wrong Fount ..	Type of a different character from others, erroneously used in composition and should be replaced.

Institute of Art in Industry

After five years of pioneering work, the Indian Institute of Art in Industry was registered in Calcutta recently. One of the objects of the institute is to guide by all practical means the development of commercial art and industrial design and to encourage traditional handicrafts. It will serve as a link between artists and designers and industrialists, business men and citizens, organize art in industry exhibitions, build up a permanent collection of outstanding examples of Indian applied art and act as a centre of information on all aspects of art applied to industry. It is expected to become the central guiding force in the country's art applied to industry. The Institute will have its secretariat in Bombay and Calcutta.

Questions

1. Explain the real functions of an advertisement. (B. Com. Cal., 1923.)
2. State the various ways in which goods are brought to the notice of the prospective buyers. What do you mean by "Keying" in advertisements? (B. Com. Cal., 1924.)
3. What are the chief points to be taken into consideration in deciding the form an Advertisement should assume. (B. Com. Cal., 1925.)
4. Explain carefully and in detail the essential elements which a good copy of an advertisement should embrace. (B. Com. Caf., 1928.)
5. State the potential value of window display as used by : (*a*) A general stores, (*b*) A Manufacturer and discuss the important factors which an efficient manager should particularly note. (B. Com. Cal., 1929.)
6. The New Behar Pottery Works Ltd. has been recently started at Mihijam with a capital of Rs. 10,00,000 of which Rs. 5,00,000 in ordinary shares of Rs. 10/- each and the balance in 5% Preference Shares of Rs. 100/- each are offered for public subscription. The Company has secured the services of an expert of 15 years' experience. Put this in form of an advertisement. (B. Com. Cal., 1929.)
7. What do you understand by scientific advertising? Discuss carefully the elements which a good copy of an advertisement should embrace. (B. Com. Cal., 1930.)
8. You have placed a new type of sewing machine on the market and you have advertised it in three leading daily newspapers and two leading monthly journals, inviting enquiries from prospective selling agents. What methods would enable you to obtain a fair measure

of the effectiveness of each of the above five advertising media?

(B. Com. Cal., 1937.)

9. Is there really any utility in Advertising? Explain very clearly.

(B. Com. Cal., 1938.)

10. What are the most important psychological effects which are sought to be attained by skilful methods of advertisement?

(B. Com. Bombay, 1926.)

11. What do you think of Theatre Programmes as a medium for advertising? (B. Com. Bombay, 1924.)

12. Do you accept the view that advertising is waste? Give reasons. State what points you would consider and what details you would note while preparing a catalogue for advertisement purposes.

(B. Com. Bombay, 1924.)

13. What are the different ideas of "Colour Combinations" in advertisement and their effect upon the reader? Draw up a scheme for a series of seven cards, one to be displayed on each day in a tram-car in connection with the mark of a particular motor-car. This series is to be used simultaneously with other advertisements in newspapers and magazines and is to serve only as a reminder. Suggest the picture and colours in connection with each card you propose.

(B. Com. Bombay, 1923.)

14. Explain the relation between salesmanship and psychology.

(B. Com. Bombay, 1930.)

15. Briefly mention the principal characteristics of a successful salesman.

(B. Com. Bombay, 1923.)

16. What constitutes the efficiency in the work of an inside salesman?

(B. Com. Bombay, 1927 and 1928.)

17. Explain the usefulness of advertisement in modern business. Describe the various methods of advertisement usually adopted.

(B. Com. Cal., 1942.)

CHAPTER XI

FACTORY ORGANISATION, COST ACCOUNTS AND RATIONALISATION

General

Modern industrial economy is essentially a factory organisation. The bulk of industrial production is carried on under factory system and through various schemes of large-scale productions.

Factory organisation is the fundamental problem of modern production. Broadly speaking, factory organisation consists essentially of two sections, one dealing with its (*a*) technical side and another with that of (*b*) the commercial side.

Commercial side consists of an effective sales organisation, resulting in the most effective sales of finished product at most profitable prices, as well as of a buying organisation in order to purchase its raw materials at very favourable rates. In every line of production sales organisation is by far the most important of all. Key to success in business consists in effective and successful salesmanship. Profits of an industry will depend essentially upon its capacity of organising its sales at most favourable terms. Industries generally institute effective sales through the appointment of expert sales manager, who in turn works through an army of successful salesmen.

The technical or works side of a factory is generally organised by technical experts, who usually work through a hierarchy of skilled engineers and technicians.

Location

How and where to build up an efficient factory is a fundamental problem in business organisation. The selection of a site is vital, and generally influenced by a few important factors. It should be near the source of power like coal or water-power, though modern development of electricity has reduced the im-

portance of this factor. Every factory should be near a source of labour supply. In India, this labour supply problem is very complex. India, having a few industrial towns, has not yet developed an industrial working class like that of the western countries. Even the bulk of our factory workers is quasi-industrial, that is, most of them take to industrial work for a part of the year only to migrate again to villages during harvesting season. So, Indian industrialists must be careful in selecting sites for their factories. Though modern transport development has practically reduced the importance of nearness to transport facilities, even then it is an added advantage. Every factory should be so built that it may further expand, in case expansion is needed. The site should also be as near as possible the sources of supply of raw materials. It must also be so situated that no great difficulty may be experienced, nor heavy expenses incurred in disposing of the finished products. In short, it means that the location of a factory must be such as is consistent with maximum advantages coupled with minimum costs.

There is no doubt that a city is likely to be very convenient. But as rents, taxes and prices of such sites are generally very high, they are not preferred by businessmen. Suburban areas are superior in these respects. They are not too far from the city. They are cheap and taxes are also lower. That is why various jute mills, cotton mills and other factories have been built up in the suburban areas of Calcutta. Cheapness of modern transport, especially by means of electricity, has also been making country sites more and more popular. In the country it is possible to build factories under modern scientific plan of health and hygiene. Thus, for example, the Bata Shoe factory, the Dunlop Rubber factory, etc., are built up in country areas with great advantages.

Lay-out

Modern factory planning has been completely revolutionised. Modern factories are planned on scientific lines. They are not crowded or jammed in one small place. The modern plan is to lay-out a factory on extensive areas, and on a decen-

tralised basis. A factory consists of several factories as it were, spread over a long area, providing for quick inter-connection. Though different processes may be distantly situated, efficient inter-communication is provided for, so that manufacture may easily run from one process to another. Extensive lay-out results in healthy and sanitary conditions under which labourers are made to work.

In building a factory, generally, certain scientific principles are followed. For building purposes, factories are classified into two main categories, namely (*a*) continuous industries, where generally a finished product is manufactured out of the same raw material through various processes, and (*b*) assembling industries, where various finished parts are first manufactured separately from different raw materials, and then they are put together to make the final product as in the case of motor cars. Continuous industries again may be either (*a*) synthetical, when raw material is repeatedly worked from one process to another until the final product is obtained as in the case of piece-goods, or (*b*) analytical, where we find that different finished products are available as the raw material passes from one process of production to that of another, as in the case of sugar. Sugar is manufactured from sugar-cane, and in between these two stages we also get what is known as molasses.

Hence, in building a factory, proper scientific attention should be paid to the nature of production, its needs, quality and quantity. In the case of assembling industries, the factory may be built up in scattered workshops, where different parts will be manufactured. A synthetical industry is more suitably housed in a factory, consisting of one single large floor, while an analytical industry generally requires for its factory, a building with several storeys, each storey being concerned with one process of manufacture.

Planning and Progress Departments

The technical side of factory organisation consists of various departments, of which the following are more or less important.

Production is at first planned. Every process is minutely scrutinised and planned so that all wastage is eliminated and maximum efficiency is obtained. The planning department allocates to individuals the work or part of the process to be done by them. It should see that all workers are fully and properly utilised.

Generally, the factory work is entrusted to an executive in the person of a *Works Manager*. He is responsible for the working of the factory. He usually works through various departmental heads, each of them being entrusted with a particular department or process of the work. They are often known as *Foremen*. A *Foreman* is practically the head of a particular section. He works under the general direction of the Works Manager. The foreman supervises directly the work of the ordinary labourers. His object is to see that his process of work is done with maximum efficiency under minimum costs. He must see that every worker is put to the right job. He must make every worker do his best. He must take care to avoid all waste. He must try to get the work done according to schedule, avoiding over-time. The foreman must always keep the workers at the highest pitch of efficiency.

The plan of the planning department will be of little use if care is not taken to see whether it is actually practised in full. The *Progress Department* is generally entrusted with the task of supervising whether the plans are being duly executed. The Progress Department keeps a constant record of work actually done by means of job cards, material charts, etc. It can advise at any time about the progress of any job or process.

There is then the *Stores Department* under the control and supervision of the *Storekeeper*. He must properly stock raw materials at minimum expenses, and pass them on to various departments under maximum economies. He must also carefully store up finished goods, and send them away under the most advantageous conditions for sale.

The *Commercial* side of a factory is generally entrusted to the *Sales Manager* or the Managing Director. In this side also there are various departments like the Sales, Purchase, Adver-

tising, Accounts, Costing, Statistical Departments, which are ordinarily found in a mercantile firm.

The fundamental task of the Sales Department is to market the manufactured goods under the most favourable circumstances. Markets must be properly studied. Prices should be determined in such a way that maximum gains may come to the business. Generally price-fixing data and materials are supplied by the Costing and Statistical departments.

Cost Accounts

The subject of cost accounts has been growing increasingly popular with the development of modern factory production under the most competitive conditions. The prime function of a system of cost accounts is to provide such an adequate classification and analysis of expenditures that the total cost of a manufactured article may be ascertained with reasonable accuracy, and it helps to know also how exactly the total cost is constituted. It refers to a system of recording in accounts the amount of labour employed, materials used, and other expenses incurred for a particular job or a contract and enables a manufacturer to find out more or less accurately the costs of a particular unit, or a contract. No confusion, however, should be made between cost accounts and financial accounts, though same data are used in preparing both. Financial accounts reveal the total profits or losses of the *works*, whereas cost accounts point out the cost of a unit, or a contract.

A Unit refers to some definable and convenient amount of production in terms of which cost and price are understood, *e.g.*, cost per ton, cost per maund, etc.

With vast schemes of post-war planning looming large, the importance of cost accounts has become fundamentally important. A cost accountant has a vital role to play in any scheme of industrialisation. The function of a cost accountant is not merely to compile the cost of production of commodities, he should also help in ensuring that such costs are reasonable. He aims at giving cost figures which are 'live' and not historical. He analyses the day to day activities of the factory or

business, points out where leakages of manpower or material are taking place, where over-expenditure may be avoided, where extravagance seems to exist and, also, where extra expense would be justified. The cost accountant's functions have changed in recent years from that of a compiler of historical costs to the dynamic one of the man who actively helps in shaping the actual costs as they are incurred and in deciding the direction in which further expansion of activities should take place. In order to carry out these functions, he utilises all the modern developments that have taken place in costing theory and practice. He uses comparative costs in advising whether a particular line of activity would be profitable and whether a particular type of plant and machinery would be the best for the purpose in view. He uses standard costs and other methods of cost control to test whether the commodities are produced as economically as possible. He introduces budgetary control to discover waste and extravagance in the day to day running of the factory. In short, the aid of the cost accountant is fundamental for industry at every step. He is as indispensable for planning as for production.

Objects of Cost Accounts

Broadly speaking, a system of cost accounts enables a manufacturer to estimate the total costs, including both primary and indirect charges, of any unit of production, or of a contract. It also enables a manufacturer to (*a*) find out not only the total profits or losses of the business as a whole, but also the actual profit or loss on any particular process, department or job. (*b*) It helps him to know how to fix up the selling price in order to earn profits, because profits are only possible provided goods are sold at a price higher than the cost of production. (*c*) It enables a manufacturer to detect any wastage or loss and take proper steps to remedy it. If any job is not paying, he can give it up, or improve upon it. (*d*) The system of cost accounts provides with valuable data for tendering for a contract or quoting prices for goods in advance of production. (*e*) As an efficient system of store and stock accounting is essential for an

adequate system of cost accounts, an effective check is automatically provided thereby upon stores and materials. (*f*) By disclosing the weakness in the manufacturing operation, it stimulates the invention of new improved processes.

Kinds of Cost Accounts

Though the fundamental principle remains the same, cost accounts may be of various kinds. *Terminal* or *Contract Cost Accounts* are used in case of contracts where costs are definite and terminating as in the case of buildings and ships. In railways, tramways, gas, electricity, etc., generally *Operating* or *Working Cost Accounts* are used. In industries where there is a natural unit of cost like per ton, per bottle, the system employed is known as *Single* or *Output Cost Accounts.* It is found in quarries, mines, breweries, etc. Another system is known as *Multiple Cost Accounts,* and is applied in industries which produce a variety of goods like hosiery, furniture, shoes, etc., that is to say, articles which have no relation with one another, either in cost or selling price. Business which has various departments for the different processes through which production passes, generally employs *Process Cost Accounts* in order to find out the cost of each process.

Classes of Costs

Prime Cost includes the cost of labour, raw materials and charges like carriage inwards, freight, dock dues, etc., which are directly incurred.

Works Oncost generally include (*a*) rent, taxes, rates, premium paid for insurance of factory, (*b*) power, fuel, gas, water, lighting and heating, (*c*) patent fees and royalties, (*d*) indirect wages of storekeeper, firemen, enginemen, factory clerks, superintendents, managers, etc., (*e*) repairs, renewals and depreciation of plant, machinery, tools, land and buildings.

The total of the Prime Cost and Works Oncost represent the cost per unit of production.

The term *Flat Cost* is sometimes used to mean cost of labour, material, and all direct expenses incurred.

"Overhead," "Fixed" or "Establishment Charges" incurred in production commonly signify the indirect expenses of production and, added on to the prime cost, represent the total cost of production.

The total cost up to the point of selling may be found by adding to the cost of production the office expenses, *viz.* (*a*) rent, rates, taxes, premium paid for insurance of office, shops, warehouse, etc., (*b*) lighting, heating, taxes of above, (*c*) commission paid to agents, brokers, salesmen, etc., (*d*) carriage out-wards, packing materials, printing, stationeries, advertisement, (*e*) salaries of staff including fees paid to directors, etc., (*f*) bad debts, discounts, (*g*) interest on capital, loans, debentures, etc., (*h*) depreciation of furniture, fittings, fixtures, etc.

The selling price is fixed by adding to the total cost a certain percentage of profit in the following manner—

Direct wages paid	*Rs*...............
Materials used	*Rs*...............
Prime Cost	*Rs*...............
Add Works Oncost	*Rs*...............
Add Office Expenses	*Rs*...............
Total Cost	*Rs*...............
Add Percentage of Profit	*Rs*...............
Selling Price	*Rs*...............

It is the duty of a Cost Accountant to find out the direct wages paid and materials used in a particular job, and to assess to it such a portion of indirect expenses that every job or a contract may equitably bear a reasonable portion of indirect expenses.

Oncost

Oncost is a technical term used in Cost Accounts, and generally denotes all expenses which cannot be directly charged

to the unit of work done or contract executed. It practically means all indirect expenses or costs of production other than prime costs.

It is the duty of a Cost Accountant to apportion to all units of production such indirect expenses as should equitably go towards estimating the total cost of production. This apportionment of indirect expenses is no easy task, and various methods have been devised in order to facilitate the task of a cost accountant.

The practice of *Fixing One Percentage to cover all Direct and Indirect Expenses* is rather unscientific, because under this system the works done by superior and inferior machinery and tool bear the same proportion.

Under the *Machine-rate Method,* a charge of a fixed amount is made for each hour or similar such unit for which the machine or tool is used.

The *Hourly-burden Plan* denotes that all expenses are first estimated and then these are divided over the number of hours worked. This system also does not distinguish between costly and cheap tools or machineries.

The method of charging a certain *Percentage on Wages* is also a popular method, though this is more accurately applied where wages do form a large part of the total cost.

The system of charging *Varying Rates for Different Items of Expenditure* is also widely practised. Expenses like rent, taxes, lighting, etc., are charged and apportioned according to floor space occupied by each workshop. Expenses like gas, electricity, water, etc., can be charged according to metre or horse-power.

Modern factories are *Charging Factory Oncost and General Oncost separately.* The factory oncost includes all manufacturing expenses. General oncost includes all administrative, selling and office expenses. In estimating factory oncost, calculation is usually based upon either labour, material or both used in production. Since material is a variable quantity, it is the usual practice to base calculations upon labour.

Advantages of Cost Accounts

Cost Accounting, when rigidly employed, keeps a correct record of all raw materials throughout the whole process of manufacture, and if there be any waste during manufacture, it will at once be revealed. It also keeps a thorough record of the labour engaged and keeps a check over it. Wastage in labour can be brought to a minimum. It lays down a standard for the methods of manufacture and all the activities of the business. The manufacturer knows what is the cost of his product, and to what extent he can go down in fixing its selling price in order to compete in the market. He also knows which of his products are more profitable and, therefore, which items his salesmen should push. Particulars are provided by which comparison can be made periodically on the methods of manufacture. Valuable information is available for the purpose of serving as a guide in reducing costs of production.

Rationalisation

The Economic Depression, which has been blowing like a blizzard over the economic horizon has brought about an orientation of outlook in industrial management. It is found that modern production, unplanned and individually undertaken, has outstripped consumption, causing thereby several economic evils, like loss of profits, decay of industries, unemployment, etc. In order to tackle this economic malady, economic system must be duly planned on a scientific basis to maximise economic well-being of society. Rationalisation has been invoked as a remedy, and it simply means the re-organisation of modern industries on the most up-to-date and scientific methods in order to secure maximum economies and profits in relation to capital investment.

Amongst other things, rationalisation implies scientific management of industry, simplification and standardisation of the processes of production. It may include a scheme of amalgamation of competing units in one simple undertaking under a centralised control and management to achieve additional economies of large-scale production. It also implies a combina-

tion of the producing units to institute a common selling organisation to control output, prices, and regulate markets.

Rationalisation may imply the elimination of inefficient units of production and concentration of production on the most efficient ones. It involves scrapping of old machinery, writing off superfluous assets and reduction of overhead costs.

It also implies a scientific management of labour and an improvement in labour efficiency thereof.

Rationalisation aims at a balanced economy by adjusting production to demand. It tends to maximise economies in production, and consequently reduction in prices of commodities.

Questions

1. Sketch the departments into which the organisation of manufacturing establishment may be divided and explain the necessity of seeing that there exists a proper correlation between these departments. (B. Com. Lucknow, 1927.)
2. Clearly sketch the internal organisation of a manufacturing industry. (B. Com. Lucknow, 1927.)
3. What is the importance of costing in manufacture? (M. Com. Cal., 1928.)
4. On what lines would you organise a manufacturing business? (M. Com. Cal., 1928.)
5. How would you differentiate and allocate "indirect wages" to the different processes of manufacturing business. (B. Com. Cal., 1932.)
6. Define the term "Factory Oncost", "Office Oncost" and explain why their allocation to final cost is a difficult affair. (B. Com. Cal., 1934.)
7. What is the utility of Costing Department in modern industry? (B. Com. Cal., 1936.)
8. Explain how the Foreman acts as the connecting link between the Workmen and the Works Manager. (B. Com. Cal., 1935.)
9. Rationalisation is the keynote of modern production. Discuss.
10. What are the aims and objects of the present day movement called "rationalisation of industries"? (B. Com. Bombay, 1928.)

CHAPTER XII

WAGE PAYMENT AND TRADE UNION

General

Remuneration of workers has been a bone of contention in the industrial world. Employers contend that the workers are paid their legitimate dues, while workers feel that they are being paid less than what they deserve. Various methods of payment of wages have been evolved, the fundamental object of all being commonly to correlate directly wages and efficiency.

In theory, wages are determined by the conditions of supply and demand for labour. The supply of labour is influenced by its cost, *i.e.* the standard of living, cost of training, and similar other things. The demand of labour is influenced by its marginal utility or productivity.

In actual practice, however, it is not possible to apply accurately this theory. Even then all the practical systems of wages tend to aim at determining wages at the equilibrium point of marginal utility and marginal productivity.

Time Rate

This method of payment of wages is very commonly practised. Under this system workers are paid according to time spent on work, *e.g.* a daily worker is paid annas eight for a day's work, a clerk is paid Rs. 50/- for a month's work.

This system ensures stability and regularity of wages.

Under a time rate of payment of wages, it is difficult to distinguish between superior and inferior workers. An efficient worker tends to profit by mixing up himself with others.

There are certain occupations where the quality of work is of supreme importance, or where individual tastes and fashions are to be catered for, time rates are very popular in such cases. Otherwise, quality may deteriorate. Supervisory or managerial

work by its inherent nature must needs be paid on a time basis, because work is difficult of exact measurement.

Piece Rate

Where workers are paid according to output, it is satisfactory both to employers and employees, and is also possible to assess accurately the cost of labour per unit of output.

This system is generally worked by adopting a standard output as a basis, but this must be scientifically determined to avoid injustice, especially, on the part of the workers.

Since a worker is paid per unit of output, it tends to pay him according to his efficiency. The more efficient a worker is, the higher will be his income. A worker can always earn more by putting in extra work.

Generally, piece rates are objected to by the Trade Unions, as they allege that this method tends to encourage extra effort amongst workers, and thereby impairs their health. By differentiating between co-workers regarding their incomes, it tends to foster rivalry among workers and endanger solidarity of the Trade Unions. Since wages depend on quantity of work, unless strict supervision is made, this system is likely to encourage "scamped" work. By varying incomes of workers according to output, it tends towards irregular earnings, and as such encourages extravagance.

Bonus System

Bonus systems are evolved to combine the advantages of both time and piece rates without their drawbacks. Bonus systems adopt, generally, standard wages based upon standard output in a standard time, and provide for gradually increasing remuneration according to efficiency. Any extra payment is generally based on a gradually diminishing scale, so that "scamped" work can be avoided, because workers do neither overstrain themselves nor tamper with quality as they know that their extra reward tends to become lower and lower.

Two of the Bonus Systems are popular, namely, the Halsey and Rowan systems. The Halsey system originated in the

United States of America, while the Rowan system can be well called the modified application of the Halsey system in Great Britain. Halsey scheme tends to render high wages possible, whereas Rowan system aims at cutting them down.

Both systems adopt standard time for a particular job to be done. If the work is done in time, standard wages as previously determined are paid. If any worker takes more time on the work, his time rate remains intact, because both systems guarantee time rate as previously determined. If any workman can finish his job earlier than the usual time, then his extra reward for time saved on the work is regulated differently by the two systems in consideration. Under the Halsey system, if a worker finishes his work earlier than the time allotted, he will get ordinary time rate for the number of hours worked ; in addition, he will receive, say 30 per cent. of remuneration which would be generally paid on the time saved (that is, saved time will be considered to be paid at ordinary time rate). Whereas, under the Rowan system, the same worker will receive payment only for the time he worked, though not at the usually pre-determined time rate, but at a higher time rate fixed up in the following way. The new or higher time rate in this case is found out by adding to the usual time rate a percentage which is equal to the percentage of the time allowed (time saved is taken as a percentage of time allowed, and worker's time rate is increased by that percentage).

ofit-sharing System

Industrial disputes generally centre round the question of profits. Workers always complain that they have no right to participate in profits. In order to meet this grievance of workers, and reduce chances of industrial friction between capital and labour, this profit-sharing scheme has been devised. Under this system workers are given some share in the profits of the industry. A great many industries in India, especially, the Tata Iron and Steel Works at Jamshedpur have also partly introduced this system by giving bonus to their employees according to profits of the concern.

Since the workers are given a share in profits, they tend to take greater interest in work, their efficiency is increased, a careful use of materials and machinery is made, less supervision is required, and workers often try to reduce costs of production so that greater profits are feasible.

The Trade Union movement is opposed to this scheme, which tends to stamp each concern with its own individuality. By associating workers with profits in a concern, it tends to foster in workers of a concern a narrow and selfish outlook of their own.

Workers' extra remuneration, under a profit-sharing system, generally, comes after a long period of waiting, and is also uncertain and irregular.

The drawback of this scheme consists in the lack of control of workers in the management of a concern, with the result that profits may not ensue, however efficient workers may be. In order to purge it of this glaring defect, co-partnerships are evolved.

Co-partnership System

Co-partnership scheme is allied to profit-sharing system, excepting that in the former, some arrangement is made to give workers a voice in the management of a concern too. Workers' share in the control is generally provided for by various methods, *e.g.*, workers are given some share-holding rights of the concern, or similar such methods.

In addition to defects of the previous scheme of profit-sharing, co-partnership system suffers from the difficulty of allocating the (1) proportion of profits to co-partners, (2) delay in distribution of profits and (3) paucity. of profits distributed.

Sliding Scale

A standard wage is ascertained for a standard output, and then any alteration in the scale of wages is directly and automatically correlated either to changes in cost of living, or selling price of the product. Where wages vary according to sale price of a product, workers as well as employers will invariably

always aim at keeping costs of production high, so that high prices can be maintained. And so this system is uneconomic and unpopular.

In trades where wages are related to cost of living, it is difficult to apply the system in practice, because it is difficult to find out a correct cost of living index number, especially, for the general mass of workers. This system is, unconsciously, practised by Governments in paying their civil servants. In India, as for examples, the pay of civil servants is graduated roughly to a sliding cost of living index figure.

Minimum Wage

In England a minimum wage has been compulsorily introduced in "sweated" trades like chain-making, lace-making, etc., and also in agriculture and mines, to a certain extent. It means that no employer in those trades can pay to its employee any wages less than the minimum fixed by legislation.

There is gradually growing in India a movement favouring the adoption of a minimum wage. It is contended that workers in India are exploited, and are paid a wage not only much less than what their productivity warrants, but the bulk of wages in India is also lower than a reasonable standard of living. That wages should be at least equal to a reasonable and minimum standard of living is a sound and healthy economic proposition. A minimum standard of living is not only required to ensure to every worker at least a tolerably living existence, but it is fundamentally necessary to maintain his morale and efficiency. In view of the fact that the majority of workers in India earn a wage less than a minimum standard of living, the arguments for fixing a minimum wage in India cannot be gainsaid. The latter acquire further momentum, when we realise the fact that labour movements in forms of trade unions or similar kindred organisations are as yet in their infancy in our country, and so not much can be expected out of collective actions of workers. Hence, the state should interfere, and it is high time that the Government of our country should legislate in favour of a minimum wage in India.

Since a minimum wage must needs be based on standard of living and productivity, it is necessary that different minima should be adopted for different industries ; even a minimum may vary for the same trade in different provinces, according to diversities of the latter. In fixing a minimum wage for any industry, we have stressed the importance of basing it both upon standard of living as well as productivity, because productivity must ultimately decide the scale of wages. Care should be paid always to see that in every line of production, productivity must always guarantee at least to pay an wage equal to a minimum standard of living. If productivity is less than a minimum wage, such an industry unless an essential one, should disappear, because any wage payment must, at first, be economically as well as socially justified.

Taylor System

Taylor devised a system of wage payment based on scientific principles. Under this system a standard wage is fixed on the basis of work of a first class workman. If any worker can finish the work earlier than the time which is so fixed for a worker, he is given a higher rate of remuneration than he is ordinarily entitled to. This system encourages higher grade of worker, and is hard on the average worker. Hence Gantt modified Taylor's system by fixing a special rate of wages for those who cannot reach the higher level of standard as fixed under the Taylor's scheme. Gantt's system is popularly known as *Task and Bonus Plan*.

Scientific Management of Labour

Taylor's system of wage payment is closely associated with what is known as the *scientific management of labour*. This system aims at managing labour on scientific principles. It consists of (*a*) Time Study and (*b*) Motion Study. Each process of work is scientifically scrutinised, cost of each process is carefully examined, and then improvement is thought out. It studies how much time a worker usually takes in order to do a job, and then it also finds out how many motions are actually done by a

worker to finish the work. Then the scientist suggests improvements. He will recommend how the worker can improve his efficiency, with what tools and machineries, and how he is supposed to use them. Scientific management of labour, therefore, gives rise to scientific payment of wages. It sets up a standard rate of wage for a work to be finished by a worker within a certain time. If any worker can do it in a shorter time, he is given extra remuneration. This is the Taylor's system. The aim of scientific management of labour aims at obtaining the maximum efficiency of labour. In order to facilitate the work of such scientists, the industries have provided them with suitable laboratories for research. The Government is also assisting them to a great extent. The various industrial research institutes of the Governments here and abroad aim at discovering suitable methods by which efficiency of labour can be at maximum level, and wages based on a scientific basis.

By basing wages system on a scientific basis, one of the bones of contention in the conflict between labour and capital is being taken away. If wages are scientifically adjusted, and changes in remuneration follow automatically efficiency causes of labour discontent regarding wages will gradually tend to disappear.

The scientific system has also been extended to the selection of a worker. Now-a-days various scientific tests have been evolved, and they can help considerably in selecting the right type of people for a particular job. Through psycho-analytical and other processes, it can be reasonably found out what are the aptitudes and inclinations of an individual. After so finding, each may be placed on a job, which suits him best. This system of selecting new entrants in economic occupations has become very popular in the United States of America, and it is yielding very good results.

Collective System

The various systems of wage payments may be applied either to individual worker or to groups of workers. Thus, for example, a group of people may undertake to finish a work in a particular

time, and is paid under the group time rate system. Then, again, a group of workers may undertake to finish a particular work, and may be paid collectively for the work done. The group is paid collectively in both cases, and then individuals in the group are paid according to some arrangements made amongst themselves.

The Family Endowment System

In some countries, an increase or promotion in wages is given according to the number of family members. This is an inequitable system, unrelated to any economic condition. It encourages marriage. It takes away incentive to work from bachelors.

Productive Co-operation

Productive co-operation denotes a system of production in which the workers themselves supply all capital and manage production. The entire profits go to the workers. As yet this system of production has not made any headway, and is only found in small industries.

System followed in India

Both the time and piece systems of wage payment are popular in India, though in some industries the bonus system may be found.

Wages may be paid either by a week or a month. In the case of monthly wages, it is paid on the fifteenth of the next month, so that fifteen days' wage is kept in the hands of the employer. Weekly wages are paid by keeping in hand always one week's wage. The employers generally keep a part of the due wage in hand in order to prevent the worker from leaving the work suddenly and without any notice.

The Bombay Cotton Mills generally pay monthly wages, whereas the Calcutta Jute Mills pay weekly wages. In a poor country like India, the weekly system of wage payment is preferable to a monthly one. When workers are paid once a month, they find it difficult to regulate expenses over a month. They generally tend to buy on credit and run into debts. When

workers are paid weekly wages, they buy cash and can equitably distribute their expenses. Though it is true that workers generally dissipate all money on Saturday (which is usually the pay day) in drinks, cinemas, etc., some check may be devised by changing the pay day to a week day. This danger of dissipation on the pay day is also found in the case of monthly wage system.

Trade Union

A Trade Union is an association of workers established in order to enhance their well-being. It has economic, social and political objects, though the former is its primary motive. It is devised as a means of bargaining with employers as a collective body on behalf of workers in matters of wages, hours and conditions of work. It is a really helpful institution. Employers are usually people with means and resources. Individual workers are poor, ignorant and helpless. Hence, in order to bargain effectively with employers, the workers usually form trade unions, which act as their mouthpiece, and they generally act with employers in matters of wage regulations and other industrial matters.

The Trade Unions have become an indispensable factor of modern economic system. They are found in very organised forms in all industrially advanced countries, where they have done immense good for the working class. The Trade Unions have increased wages, improved industrial and working conditions, have brought innumerable social benefits like death benefits, unemployment relief, sickness and accident relief, etc. to the doors of the workers. By massing them together in all matters of action, they have made the working class self-conscious. They have also secured for workers desirable political privileges and advantages. The political wing of the labour movement is fast gathering strength in all countries.

There is, no doubt, some truth in saying that the Trade Union Movement has increased the wages of workers. But there is a limit to this increase. Wages are ultimately based upon productivity, and no employer can ever afford to pay more than what the labour is worth for. Hence, wages can be increased only in cases where they are paid less than what the

workers produce, and trade unions help workers to obtain wages equal to productivity. The only other way of increasing wages is by means of increasing efficiency of workers, and the trade unions can help to a great extent to increase the efficiency of workers by devising various methods of improvement. Trade Unions aim at improving working conditions; they arrange for education and training of workers; trade unions take various measures in order to improve the health of workers, and tend to keep the efficiency of labourers unimpaired.

Strike

Trade Unions may bargain with employers either peacefully or by coercive methods. When the former method fails, the trade unions resort to strike as a bargaining weapon. *Strike* has been found to be a very effective weapon at the bargaining counter. A strike means the stoppage of work by a body of persons employed in any trade or industry acting together, or it may refer to a combined refusal of a number of individuals who have been or are so employed to continue to work. A strike is likely to lead to temporary suffering and loss to both employers and workers and economic wastage is involved by the cessation of work. Hence, in order to make a strike successful, workers must be in a strong position. The workers must have sufficient financial resources in order to tide over difficulties during the period of strike, when they do not earn any wages. Hence are the recurrent failures of strikes in India, where the Trade Union Movement as yet lacks in financial strength. Consolidation and solidarity are also essential for a successful strike. These two elements are also not so highly developed in the Indian labour ranks. Since a strike is not a desirable thing, disputes between labour and capital are always attempted to be settled through peaceful means, and the Governments in all countries have innovated several institutions for the amicable settlement of trade and industrial disputes.

In order to mitigate the severity of a strike, it is generally resorted to after due notice. The notice is legally enforced in

some countries. When a strike is suddenly started, it is known as a *lightning strike.*

Lock-out

As a counter measure to strike, the employers have devised their weapon which is known as "Lock-out." It means the closing of a place of employment by the employer, or the refusal by him to employ a group of individuals already in his employment as a result of a dispute between the employer and the workers. This is adopted by employers in order to coerce workers or force workers of fellow employers to accept their own terms and conditions of work. Lock-out as a bargaining weapon is generally condemned, and is rarely practised. The employers are sufficiently strong to avoid such a coercive measure.

The Trade Union Movement in India

The genesis of labour organisation may be traced as early as the nineties of the last century. In 1890 the mill-hands of Bombay formed the Mill-hands Association in order to support the proposals for labour legislation. Actual *Trade Union* in the real sense of the term was started after the last World War, which brought in its train, several economic repercussions favourable for the growth of trade unionism in India. The cost of living went up, prices shot higher, wages were cut down, working conditions became unsatisfactory, a class consciousness tended to grow amongst Indian labourers, and they saw what trade unions were doing in other lands. Trade unions were formed in Madras, and gradually in other parts of India. The *First All-India Trade Union Congress* was held in 1920 in Bombay. It was a joint session of all trade unions working in India. A split occurred in 1929, and a rival organisation in the form of the *All-India Trade Union Federation* grew up. The Trade Union Congress has consolidated the individual trade unions throughout the country. It has popularised the Indian movement in other countries, and established a connection with their sister movements.

Indian Trade Unions Act

The Indian trade union movement was legally recognised by the Indian Trade Unions Act of 1926, which is a land-mark in the progress of the movement. Under this Act, any trade union may or may not be registered. Though registration is optional, a registered union enjoys certain privileges, and confers immunity to its members from certain civil suits and criminal prosecution. In order to be registered, a trade union must clearly state its name and objects. It must keep a list of members. The funds of a registered union can be spent only on specified objects in the interests of its members. Annual accounts of a registered union must be audited. At least half the office bearers of a registered union must belong to the industry itself.

Conclusion

The Indian trade union movement is still in a nascent state. Though in many places it has brought improvements in wages and working conditions, much remains to be done. It has also been doing socio-economic services, *e.g.*, giving death benefits to workers, unemployment relief, friendly services, etc.

The Indian trade union movement lacks in cohesion and consolidation. Workers are poor and ignorant ; they have not yet developed the healthy self-consciousness. The leaders of the Indian trade union movement are mostly recruited from outsiders, who are insincere in the majority of cases. They join hands with the workers just to further their own selfish interests. Lastly, the workers have been given special powers and privileges in the political sphere by way of having their own representatives and nominees in the Assemblies and Councils. These political privileges are usually usurped by the outside elements who tend to further their own interests at the cost of the workers. The working class must discover their leaders from their own ranks.

Working Hours

Health and efficiency of a worker is correlated with his working hours and hence in almost all countries working con-

ditions are regulated by various factory Acts. In India the Factory Act was originally passed in 1911 and since amended as the factory Act of 1934 and further amended by Act XI of 1935. It tends to regulate among other things the conditions of work of child and female labour. A child is defined by the Act to be a person under fifteen years of age. It prohibits the employment of children in any factory, where such employment is deemed to be injurious to their health. It also provides that no female or child can be employed in a machinery while the same is in motion. It also stipulates that no person shall be employed in a factory for more than 54 hours in a week, or if the factory is a seasonal one, for more than 60 hours a week, or more than 10 hours a day. It is further provided that no worker should be employed on a Sunday unless he has had or is going to have a holiday for a whole day on any one of the three days immediately preceding or succeeding a Sunday.

The Indian Trade Disputes Act, 1929

The above Act was passed for providing some machinery for the settlement of industrial disputes. It relates to the establishment of tribunals for the investigation and settlement of trade disputes. The Act provides for some sort of a tribunal to which industrial disputes may be referred, and provides for Conciliation Boards which are to be appointed *ad hoc*, like the Courts of Enquiry to deal with disputes.

The Indian Trade Disputes Act, 1929, extends to the whole of British India including British Baluchistan and the Santal Parganas. It provides that wherever any trade disputes existed or were apprehended between an employer and any of his workmen, or where the employer is the head of a department under the control of the Central Government or is the Federal railway authority or a railway company operating a Federal railway, the Central Government may, by order in writing, (*a*) refer any matters appearing to be connected with or relevant to the dispute to a Court of Enquiry to be appointed by the Provincial Government or the Central Government, as

the case may be ; or (b) order the dispute to a Board of Conciliation to be appointed by the Provincial Government or the Central Government, as the case may be, for promoting a settlement thereof. If both the parties to the dispute apply either separately or conjointly, for a reference to a Court, or where both parties apply, whether separately or conjointly, for a reference to a Board, and the authority having the power to appoint is satisfied that the persons applying represent the majority of each party, the Court or Board, as the case may be, shall be appointed accordingly.

The Act defines an employer as :—

"Employer", in the case of any industry, business or undertaking carried on by any department of any Government in British India, means the authority prescribed in this behalf or, where no authority is prescribed, the head of the department.

A workman is defined as :—

"Workman" refers to any person employed in any trade or industry to do any skilled or unskilled manual or clerical work for hire or reward, but does not include any person employed in the naval, military or air service of the Crown.

A trade dispute is defined as :—

"Trade dispute" refers to any dispute or difference between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or the terms of the employment, or with the conditions of labour, of any person.

Courts of Enquiry and Boards of Conciliation

A court of Enquiry should consist of an independent chairman and such other independent persons as the appointing authority thinks fit ; or may, if such authority thinks fit, consist of one independent person. This Court may act so long as there is the prescribed quorum notwithstanding any vacancy in the number of its members other than the chairman, and may enquire into the matter referred to it either in public or

in private at its discretion, reporting thereon to the authority by which the Court was appointed. The Court may also make interim reports.

A Board of Conciliation should consist of a chairman and two or more other members, as the appointing authority thinks fit, or may, if such authority thinks fit, consist of one independent person. If the Board consist of more than one person, the chairman shall be an independent person, and the other members shall be either independent persons or persons appointed in equal numbers to represent the parties to the dispute. Persons appointed to represent a party shall be appointed on the recommendation of their party, provided, however, that if any party fails to make the necessary recommendation within the prescribed time, the appointing authority shall elect and appoint such person as it thinks fit to represent that party. The Board having the prescribed quorum may act notwithstanding any vacancy in the number of its members other than the chairman, provided, however, that where the Board includes an equal number of persons representing the parties to the dispute, and the services of any such person cease to be available before the Board has completed its work, the authority appointing the Board shall appoint another person to take his place; and the procedure shall be constituted. The duty of the Board of Conciliation is primarily to try to bring about a settlement of the dispute referred to it, and for this purpose the Board shall, in such manner as it thinks fit, and without delay, investigate the dispute. It may, if it thinks fit, persuade the parties to come to a fair and amicable settlement of the dispute, and may adjourn the proceedings for any period sufficient in its opinion to allow the parties to agree upon terms of settlement. If no settlement is arrived at during the course of the investigation, the Board must, as soon as possible after the close of the investigation, send a full report regarding the dispute to the authority by which the Board is appointed, setting forth the proceedings and the steps taken by the Board for the purpose of ascertaining the facts and circumstances relating to the dispute and of bringing about a settlement of

same, together with a full statement of such facts and circumstances, its findings thereon and its recommendations for the determination of the dispute.

If a settlement of the dispute is already arrived at, a memorandum of settlement must be drawn up by the Board and signed by the parties and the memorandum, and Board's report of the settlement, must be sent to the party by which the Board was appointed.

The objects of the Court of Enquiry should be to investigate and report on such questions connected with the dispute as may be referred to them. The object of the Board of Conciliation is to endeavour to secure a settlement of the dispute. Both these Courts are empowered to enforce the attendance of witnesses and production of documents. The reports of both these parties must be published. Neither party to the dispute is, however, bound to accept the findings either of the Court of Enquiry or the advice of the Board of Conciliation. The publications of the report will, however, help to enlighten public opinion.

A strike or a lock-out shall be illegal which :—

(*a*) has any object other than the furtherance of a trade dispute within the trade or industry in which the strikers or employers locking out are engaged; and

(*b*) is designed or calculated to inflict severe, general and prolonged hardship upon the community and thereby to compel any Government in British India, the Federal Railway Authority or the Crown Representative to take or abstain from taking any particular course of action.

The Act also provides for penalties to persons who declare, instigate and incite others to take part or otherwise act in furtherance of a strike or lock-out which is illegal.

The Act also provides that a person refusing to take part or to continue to take part in any strike or lock-out which is

illegal shall not, by reason of such refusal, or by reason of any action taken by him under the Act be subject to expulsion from any trade union or society, or to any fine or penalty or to deprivation of any right or benefit to which he or his representatives would otherwise be entitled, or be liable to be placed in any respect either directly or indirectly, under any disability or at any disadvantage as compared with other members of the union or society in spite of any rules to the contrary of a trade union or society.

Social Security for Workers

The Government of India have prepared and forwarded to the Provincial Governments a unified scheme of social security for industrial workers, covering health insurance, maternity benefit and employment injury. On receipt of replies from the Provincial Governments, the question of introducing a bill in the Assembly to execute the scheme will be considered. The scheme is the outcome of the report prepared by Prof. Adarkar on health insurance for industrial workers. He proposed for gradual progress by stages. It is now proposed on advice of Messrs. Stack and Rao of the International Labour Office, who visited India at the invitation of the Central Government to tackle the problem as a whole. The proposed scheme covers all perennial factories. It is likely to remove some of the defects, which have crept into the present working of the Workmen's Compensation Act and Maternity Benefit. The Central Government will meet two-thirds of the cost of administration as an ex-gratia payment for the first five years ; the Provincial Governments are being asked to meet one-third of the cost of medical care by the provision of medical services and the remainder of the cost will be met from employers' and workers' contributions. The administration of the scheme will be controlled by a statutory corporation, a Central Board of Social Insurance, to be set up under a federal Act. In addition, there will be regional boards and local committees and judiciary, as suggested by Prof. Adarkar in his report.

Questions

1. Mention the chief systems in existence for the payment of wages. (B. Com. Cal., 1923.)
2. Discuss the principal methods of remunerating labour in modern industries. (B. Com. Cal., 1925, 1931.)
3. Explain what are the different methods of remuneration, giving short explanations under each head. (B. Com. Cal., 1926.)
4. Discuss the principal methods of remunerating labour in India. (B. Com. Cal., 1927.)
5. Describe (i) Profit-sharing, (ii) Co-Partnership. (B. Com. Cal. 1933.)
6. On what factor or factors—time and/or productivity—should the wages of a workman be determined? Give reasons for your answer. (B. Com. Cal., 1939.)
7. Give your own idea with convincing explanations about proper distribution of profits between the entrepreneur and the labourer. (B. Com. Cal., 1941.)
8. Enumerate some of the most outstanding disadvantages under which the present day working people of India have been labouring and state how you would remedy these evils. (B. Com. Cal., 1924.)
9. What are the proper functions of Trade Unions? Would you consider them an unmixed blessing? Explain your views carefully. (B. Com. Cal., 1936.)
10. State and discuss the methods of payments to wage-earners with a view to reconcile labour with capital. (B. Com. Lucknow, 1926.)
11. State the various denominations under which the collective wage system is divided under the present day scientific management and discuss the relative advantages and drawbacks of each. (B. Com. Lucknow, 1927.)
12. Explain the relation between efficiency of labour and the methods of remuneration adopted in a manufacturing business. (B. Com. Bombay, 1927.)
13. Organised labour in Europe and America is said to display a tendency in form of a uniform wage scale as opposed to extra remuneration paid on efficiency of individuals. Show the drawbacks attached to this idea from the point of view of both of industry and the workman, giving full reasons for your answer. (B. Com. Bombay, 1927.)
14. State what you conceive to be the advantages and disadvantages of the piece-wage method of remuneration. Do you think it desirable that it should be supplemented or modified in any way? (B. Com. Bombay, 1926.)
15. Explain the methods of the principal Bonus system of remuneration comparing them with similar methods of time or piece-wage. (B. Com. Bombay, 1924.)

16. "With all its drawbacks a well regulated Piece-wage System is undoubtedly superior to the Time Wage System." Discuss the advantages and disadvantages from the point of view of general efficiency of the two wage systems referred to in the above quotation. To what types of industry or business are they specially suited? Give illustrations. (B. Com. Bombay, 1924.)
17. You are asked to decide as to what is a "living wage" in case of workmen employed in a particular factory. What points would you pay particular weight to before arriving at your figures? Discuss as fully as you can, giving reasons. (B. Com. Bombay, 1920.)
18. Enunciate the general principles to which wage-systems must conform if they are to be sound incentives to work. (B. Com. Bombay, 1930.)
19. What are the difficulties of introducing piece-rates as a general system of wage-system? What contribution has scientific management to make towards the perfecting of the system? (B. Com. Bombay, 1929.)
20. Suppose you are the Managing Director of a large manufacturing business. State in outline the methods you would adopt for its scientific management. (N. U. T., 1928.)
21. What do you understand by scientific management? Explain the principle underlying it? (B Com. Lucknow, 1924.)
22. "The most obvious advantage of scientific management is the additional output that follows a more intensive and better directed division of labour, and a fuller utilisation of plant and capital resources." Comment fully upon this statement and criticise. (B. Com. Bombay, 1927.)
23. What is scientific management? Does it mean scientific sweating of labour? (B. Com. Bombay, 1926.)
24. "To work according to scientific terms, the management must take over and perform much of the work that is now left to the men." Comment. (B. Com. Bombay, 1924.)
25. "Scientific management involves in its essence a complete revolution on the part of the workmen and an equally complete revolution on the part of those on management side." Comment. (B. Com. Bombay, 1924.)
26. What are the proper functions of labour organisations and what would you consider to be their limitations and why? (B. Com. Bombay, 1926.)
27. Distinguish between Co-partnership and Profit-sharing, and discuss the advantages which profit-sharing methods hold out to employers. Can you suggest any practical difficulties likely to be experienced in the working of profit-sharing schemes? (B. Com. Bombay, 1924.)
28. What are the main difficulties of profit-sharing schemes? What are the causes of the hostility of trade-unions towards them? How far is it justified by past history? (B. Com. Bombay, 1930.)

29. Describe the changes which occur under scientific management in the internal organisation of a business and estimate the effect of these changes on labour and management. (B. Com. Bombay, 1929.)
30. Discuss the principles underlying the different methods of remunerating labour, carefully bringing out the advantages and disadvantages of each principle. (B. Com. Cal., 1944.)
31. Explain the different methods of payment of wages to skilled workers and to clerical establishment in an industrial concern. State the merits and demerits of each method. (B. Com. Cal., 1942.)

CHAPTER XIII

WHOLESALE AND RETAIL TRADES

General

After a commodity is produced, it generally reaches the ultimate consumer after passing through various hands, amongst whom the wholesalers and retailers are the important links. Wholesalers usually buy goods in large quantities, and sell them in turn to retail dealers, who ultimately sell them again to consumers. The vast complexity of modern economic organisation has rendered the existence of wholesalers and retailers more or less indispensable. Production being on a vast scale, manufacturers are usually far too occupied with merely production, leaving the task of marketing their products in suitable hands. Producers and consumers are distantly situated from one another ; intense competition exists amongst the producers and the consumers ; these factors have necessitated the growth of a special class of people, who undertake the task of marketing wares produced in the community, and help the manufacturers to concentrate on production. The wholesaler is performing a very useful service. The manufacturers are relieved of the risk of marketing. The wholesalers generally undertake all risks of the price fluctuations. They stock goods, lock up their capital, and, therefore, the manufacturers need not freeze their capital in the form of stored goods. The retailer is also similarly doing a useful service. They come in direct contact with consumers. Individual tastes and fashions are catered for by the retailers. The consumers require personal attention and care, which can only be given by a retailer. It is not possible for a wholesaler. No doubt, it may rightly be argued that wholesalers and retailers are far too many, and considerable improvement can be effected by re-constructing the entire system on a rationalised plan. It is no doubt true to say that the more we reduce the number of middlemen the better for the community, because the middleman's profits will

be minimised and prices will be cheaper. Though wholesalers are trying to organise retail trade through the system of multiple shops, the place and utility of retailers are still there. The very fact that the numerous retailers are making profits and are multiplying, proves that our economic system has yet room for the retail traders.

Organisation of Wholesale Business

A wholesale trading firm has, broadly speaking, administrative and executive divisions. The accounts, finance, correspondence and general administration are looked after by the administrative section working through various departments, like the Accounts, Cash, Credit Information and Collection of Accounts departments, etc. These have already been dealt with in a previous chapter under the heading 'Company Management and Secretarial practice'. The buying, selling, forwarding of goods, etc., are usually supervised by the executive section, which works through the Purchasing, Selling, Warehousing departments, etc.

The Accounts and Finance departments generally supervise the accounts of the firm. They decide what should be the capital and they must apportion properly the capital amongst the various departments according to requirements. The Accounts department is the key department, and the solvency of the firm depends upon its efficiency and vigilant working. It must regularly collect the dues of the firm, and pay the creditors.

Generally, a wholesale firm buys its commodities through its Purchasing department, which works through several sectional managers, who buy goods wholesale on behalf of the firm. Several buyers when appointed generally make purchases, and they generally work under the supervision of the General Manager.

The wholesale firm generally sells to the retailers. In attracting the retail dealers, a firm need not maintain a fashionable showroom or office. But goods should be so kept that it may be easy to exhibit them to the buyers. It will also facilitate

work and reduce costs, where goods are stocked and warehoused in such places that despatch and forwarding become easy. Goods may be advertised through out-door display, propaganda and publicity, out-door salesmen, etc. Sometimes, a wholesale firm combines wholesale business with retail trade. In such a case, proper showrooms are kept, and goods are sold as in an ordinary retail shop. When a wholesale firm has both wholesale and retail business, care must be taken to see that goods are sold for retail at the same price as charged by ordinary retail dealers. Otherwise, the retailers will be under-cut, and they will be discouraged from trading with the wholesale firm. Since it is not the object of a wholesale trader to compete with retailers, he generally resorts to retail business as little as possible.

Retail Trade: Organisation and Management

Modern production has reached the peak point and outstripped consumption, with consequences of economic depression resulting in low prices, unprofitableness of industries and unemployment. This can only be removed by increasing consumption in the community. Amongst the various methods attempted in that direction, several measures have been especially devised to give an additional fillip to increase consumption through various methods of retail trade like multiple shops, departmental stores, hire-purchase, mail order business, etc.

The retailer's success in business depends upon his popularity. He personally attends to customers. The importance of locality and premises is very great in the case of a retail business, because the customers must find it convenient to come to the retail shop. It should be able to attract customers easily. The selection of site will depend upon the nature of goods and customers. It is always a good point for the retailer to specialise in particular goods, so that he can easily obtain reputation in the line. It is always preferable for a retailer to choose a site where there are already similar shops of the same trade. Thus, for example, a book shop in Calcutta

should be started near about College Street, a suit-case and trunk shop in Harrison Road and so on.

The retailer must devise good systems of buying. Purchases should be made in the best market. Records of goods bought must be carefully kept. An Order Book ought to be maintained, keeping a record of all orders sent out for purchasing goods. When commodities are received, they should be carefully examined and must tally with all specifications as given in the order. A "Goods Received Book" ought to be maintained, in which a record of the goods received should be carefully noted in all details.

Purchases may be made either in cash or on credit. Cash purchase is always preferable, otherwise a higher price is charged in case of credit buying. Payment should be regularly made. A good system of payment always satisfies the wholesaler. After receiving the commodities, the checker will initial the invoice after checking it fully, then pass it on to the officer who gave the order. He will authorise the payment by passing the invoice to the cashier. He will enter it in the "Purchases Day Book". The cashier will then either make the payment, or fix a date for payment.

Salesmanship is the keynote of retail business. How to sell commodities at the best possible price is the fundamental object of a retailer. If any customer enters a shop, the salesman must take all care and employ all skill in persuading the customer to buy the commodity. A good salesman with polite manner is a very great advertisement for any retail establishment.

A good retailer must give adequate publicity to all the commodities which he is selling. Advertisement of his goods must always be coupled with due collaboration of the sales department. The shop must properly display the goods advertised ; every salesman should be able to explain to any customer the articles which have been advertised. Every retail dealer generally resorts to window display and window dressing to a very large extent. Both are very effective methods of publicity. The modern art of window display has become very

much different from what it used to be formerly. The original idea of jamming the windows with maximum number of goods has now been abandoned. In modern window display, four cardinal principles are usually followed. (*a*) The display is made in a simple and attractive way. (*b*) Advertised goods are often displayed. (*c*) Generally all details including prices of goods are visible and (*d*) it is always the practice to exhibit the seasonable articles.

The size of a retail establishment depends upon the nature of business, and the capital resources. In business like dress-making, drapery, tailoring, etc., the small retailer is always an essential unit, because business cannot expand on a large-scale as individual tastes and fashions have to be satisfied. Gradually, a tendency is growing to start retail business on a large-scale in spheres where they are economically possible. In such instances, all advantages of a large-scale business become available. Buying can be made on a large-scale, and cheaper prices are obtainable from a wholesaler. Costs of carriage, management, etc., are also proportionately reduced. Expansion of retail trade may be either vertical or horizontal. Horizontal expansion is found in the case of a departmental store, where the size of a retail business unit is fairly big. A vertical example is noticeable in the case of the multiple shop system, where it is usually started and managed either by wholesalers or manufacturers. Multiple shops are usually opened by producers themselves in order to popularise the sales of their articles. Hence, we find the combination of the various stages beginning from production to distribution being concentrated in one management. But it should be remembered that in spite of the growth of the large-scale unit of retail business, the small retailer is holding his ground. It is due to his small costs of management and personal attention paid to clients. It is not unusual to find that retailers give special services by means of free house-to-house delivery. They go to the houses of individual customers in order to get orders. As long as individual attention and taste will play important

influences upon human beings, the small retailer also will continue to exist.

A retailer will naturally charge such a price for his commodities which will fetch maximum profits possible. But in fixing his prices, he must bear in mind that his prices should be competitive. In cases where a retailer has a sole agency for a particular commodity, the manufacturer usually determines the price. When this is the case, the retailer usually marks the price on the commodity. Marking prices on the goods is a convenient method. It gives the customer an idea of the price immediately without asking for it, and it saves higgling and bargaining. In no case, however, prices should be marked in such a way that they cannot be removed. After making the purchase, no customer likes to exhibit the price, especially when the commodity is meant for presentation or gift. Very often retailers mark a special price on the goods, and this price is secret and meant only for the staff. Such prices can be so marked by means of *Codes* or "Cyphers". The "Cypher" system of marking prices means that letters are used to mean numerals, *e.g.*, letter A to J means numbers from 1 to 10. Various shops have got their own codes, which are intelligible to the staff only. Outsiders do not understand them. This system of marking prices in a secret way is essentially required in case of commodities in which different prices can be charged from different clients. From the "Cypher" system, the staff knows the cost price, and so it can regulate the price according to customers. It is also of great assistance in case of reducing prices when seasonal or occasional sales are given. The retailer knows quickly from his cost price marked secretly on goods by means of cyphers how far he can reduce the prices. Marking prices on goods also helps stock-taking, because prices can be easily found out without any reference to books and records.

Hire-purchase and Deferred Payment Systems

In retail trade, commodities are usually sold for cash. Now, in the community there are several people who would

like to buy a particular commodity, especially an expensive one like a radio or a motor car, but can ill-afford to do so, if they are to pay cash all at once. They can only go in for the commodity, if they are allowed to pay for it in convenient instalments, and not all at once. In order to meet this type of clients, the hire-purchase and deferred payment systems have come into vogue.

Hire-purchase System

In both the above systems of purchase, a contract is entered into between the buyer and the seller. Under the hire-purchase system, the buyer contracts to pay for the commodity in convenient instalments, takes its delivery, and enjoys it, though the right of ownership rests in the seller, until the final instalment covering the full price of the commodity, is paid. If the buyer fails to pay any instalment as contracted for, the seller may forfeit the commodity sold, and no consideration is paid for anything, which the buyer has already paid towards the price of the thing. Hence, this system acts rather harshly upon the buyer, who may fail to pay his instalment either by mistake, or owing to a change in his economic circumstances beyond his control.

Deferred Payment System

In order to remove this defect of the hire-purchase system, the deferred system of payment was introduced to make sales more popular. Under this latter system, the right of ownership passes on to the buyer immediately after payment of one instalment, though the seller always reserves the title of regaining his right of ownership if any instalment fails with the provision that this right is good minus the amount of money, which is paid by the buyer. The seller may also recover his expenses by deducting from the money paid by the buyer. So, if the buyer has already paid some money, he does not lose the entire amount as in the previous case. In India, the hire-purchase system is more popular, because the latter requires a thorough knowledge and confidence of the buyer.

fects and Merits of both

Though these two systems have come to stay as regular methods of retail trade, they may degenerate into great evils if abused. Buyers should not be tempted to live beyond their means. Sellers should not use the system indiscriminately, and in selling under these methods they should pay due attention to buyers' means, needs and conduct. These systems should be generally extended to commodities of durable quality, or sellers may stand to lose heavily.

On the whole, the two systems have proved to be effective and sound economic methods of increasing sales in society. Properly used, they are economically beneficial. Though prices under these methods must needs be higher than for cash, because the seller must wait before payment in full is realised, and interest and risks of waiting must be charged for, they definitely encourage thrift and saving in society. It is not generally possible to save money and then buy a high priced article ; it can only be possible to do so if payment can be spread over convenient instalments. And once people have started to pay for a commodity by instalments, they will be induced to save compulsorily to meet the instalment payments. The hire-purchase system has proved a boon to middle-class people so far as building their homes is concerned. Building societies, generally, practise this system, and thereby enable people with modest means to get homes of their own. Lately, some of the building societies are working under this plan in Calcutta. In machinery purchases also, this is a very useful method of buying. In India, there are several new mills and factories that cannot afford to pay in full for the purchases of their machineries. They are now buying them under the hire-purchase system, and may, very often, meet the instalments out of the profits of production made by means of such machineries.

Questions

1. Discuss and describe the system you would introduce in connection with cash and credit sales of a large store where purchases are made wholesale but sales are retail. (B. Com. Cal., 1927.)

2. You have been appointed sole Agents in Madras for a new brand called "Black Tea". Write your first report to your principals (who are experts in the business of tea and coffee) describing the prospects and necessary measures for obtaining a successful sale of the products. (B. Com. Cal., 1929.)
3. "Trade is sometimes divided into Export and Import, Wholesale and Retail". Discuss carefully the defects of the division. Can you suggest any useful method for the classification of trade? Give full reasons. (B. Com. Cal., 1931.)
4. As Sales Manager of a Motor Car Company write a letter to an enquirer about your Hire Purchase system. (B. Com. Cal., 1933.)
5. Examine the principles underlying the office organisation of wholesale trading firms. (B. Com. Bombay, 1929.)
6. What are the peculiar dangers of instalments selling from the standpoint of customer and businessman. (B. Com. Bombay, 1930.)
7. What are special features of the hire-purchase system? To what trade is it specially adoptable? What are the inherent risks? (B. Com. Bombay, 1928.)
8. State the potential value of window display as used by (*a*) a general stores, (*b*) a manufacturer, and discuss the important factors which an efficient manager should particularly note. (B. Com. Cal., 1929.)
9. By what criteria should a wholesale house determine the amount of credit retailers? (B. Com. Bombay, 1926.)
10. Discuss the principle of salesmanship as applied to a large store and give a brief sketch as to the office routine to be applied in case the store allows short credits to approved customers. (B. Com. Bombay, 1923.)

CHAPTER XIV

MULTIPLE SHOPS

Definition

(A Multiple shop is composed of several similar shops owned by the same business firm. These shops generally undertake retail trade, and deal in a few selected articles. More often than not, a single manufacturer, specialising in a particular line of production starts these multiple shops in order to capture the market. The Bata Shoe shops, The Khadi Pratisthan and Dwarikanath Ghose & Sons may be cited as examples of multiple shops in Calcutta. Generally, multiple shops are so similarly housed and situated that people find little difficulty in discovering them. Multiple shops are usually started by wholesalers or manufacturers in order to create markets for themselves and eliminate the middlemen in the form of retail dealers. The multiple shop system in such cases is an example of a vertical combination.)

Disadvantages

(Disadvantages of multiple shops are more or less negligible, and pale into insignificance when compared to those of their merits. Multiple shops are examples of doing mass business, and as such they lack in personal touches as between customer and seller, and that between employers and employees. Though multiple shops compete with small retail traders the latter will always exist in modern economy, as long as some customers always want personal attention and care. Personal element is the ear-mark of success for small traders.

Advantages

By multiplying consumption, the multiple shop system has come to stay as a special feature of our modern retail trade.

Having several branches, a single unit can obtain all economies, which generally ensue from large-scale operations in buying and selling.

The multiple shop system comes into contact with a large body of consumers, whose tastes and fashions it can better and more precisely study and thereby can tap the community to the maximum possible extent. Hence, total sales of multiple shops are quite large. Since its total sales are very great, its costs of business are consequently small. By doing business on cash basis, multiple shops generally suffer no loss in credit transactions like ordinary retail shops, and needs no staff to maintain credit accounts either.

By having multiplicity of branches, the multiple shop system can cater easily and efficiently. Customers get such shops generally at a comparatively small distance, and shop their commodities from there.

Costs of advertisements of multiple shops are comparatively small as each shop of the chain tends to advertise for another of its own kind.

Under a system of multiple shops, any shortage of stock in one of its branches may be easily recouped by transferring the surplus from another, but a single retail trader cannot do so in case his stock runs short.

Management and Control

The premises and locality of multiple shops are selected according to the types of customers.

The multiple shops usually centralise the stocks, which are kept at the central depot or the Head Office. Each branch is supplied with a stock according to requirements, and hence unnecessary accumulation of stocks at the branches can be avoided. Since the Head Office supplies stocks to branches, and fixes up the selling prices, it becomes easy to keep a check upon the stocks of the branches, and to find out the sales of the branches. Where the multiple shop system is controlled by traders or merchants other than manufacturers, it can buy things cheaper because its purchases are made on a large-scale. Economies in carriage, packing, deliveries are also available to it.

The multiple shop system is generally found in the form

of a limited company, and is, therefore, controlled by the Managing Director, who is responsible to the Board of Directors.

Each of its branches is managed by a Branch Manager. He generally submits to the Head Office either daily, weekly or some periodical reports, detailing goods sold, expenses incurred, and stocks in hand. He has little voice in the general management. He obtains direction from the Head Office. Prices of commodities are generally fixed by the Head Office. The Branch Manager always tries to make his branch paying and profitable by making a large turnover. He is responsible to the Managing Director. It is also the usual practice to create an intermediate official in the form of an Inspector, who is placed in charge of several branches. Then the Branch Manager becomes directly responsible to the Inspector, who in his turn becomes responsible to the Managing Director.

The sales of the multiple shops are generally on cash basis, and the cash of every branch is daily banked to the account of the Head Office. It is a good system not to allow the Branch Manager to use current takings in order to defray the expenses of the branches. Fixed expenses, like salaries, rents, rates, etc., of branches are generally paid by the Head Office, which may advance to the Branch Manager a certain sum also in order to defray contingent expenses.

Record keeping of the branches is very simple. The Head Office sends a book to every branch for keeping a Stock Account and a Weekly Cash Account. Both these accounts may be printed and written on one page for convenient checking. Copies of these accounts must be sent to the Head Office every week. Since cash is banked daily, it is desirable that the paying-in slips counterfoils together with receipt counterfoils where receipts are given to customers, should be sent every week to the Head Office with the Weekly Cash Account. The Head Office also keeps a record of goods sent each day to any branch, and the Head Office record is compared each week with the stocks shown in the Stock Account of the branch. Generally, the branch may return some goods to the Head Office owing to their defects or otherwise, and this return is technically known as "returns to

H.O.". The discrepancy between the actual stock in hand and that which should be according to Stock Account is technically known as "Allowances". A certain percentage of discrepancy is allowed owing to wastage, breakage, etc., and any excess over this percentage must be fully explained by any Branch Manager. The actual stock in hand can, therefore, be easily checked, and it is a practice for the Head Office to send some official from time to time to the branches in order to verify the Stock Account by comparison with the actual stock in hand.

Tied Shops

It is very often found that manufacturers set up individuals in retail business, provided the latter agree to sell only goods of a particular manufacturer solely, or in preference to competitive products. The shop is tied or wedded as it were to selling goods of a particular manufacturer only. This type of tied shops is quite common in jewellery and fancied articles. This type of shops resembles to a sole agency business. It is very often found that a retailer takes the sole agency of a particular article. It thereby gains the monopoly of sale in that particular product, and so the manufacturer in exchange will also demand that the retailer must not sell similar competitive article. This type of sole agency is found in the case of musical instruments, cycles, soaps, fountain pens, etc.

Chain Stores

Chain stores are more or less similar to multiple shops, with this difference that chain stores are usually started by retailers, but multiple shops are more often managed and controlled by manufacturers than retail dealers. Advantages, disadvantages, control and management of chain stores and multiple shops are also more or less similar.

Questions

1. Describe a multiple shop by a suitable example. (B. Com. Cal., 1932.)
2. Give your views on the effect of the increase of multiple shops on (*a*) the manufacturer, (*b*) the wholesaler, and (*c*) the retailer. *(N. U. T., 1928.)*
3. Describe the methods of management of a *Multiple* shop.
4. What are chain stores?

CHAPTER XV

DEPARTMENTAL STORE

Definition

The departmental store is another useful adjunct of modern retail trade. It generally refers to a large single retail undertaking which houses in the same building several departments, each doing a different type of trade. It is, as it were, a conglomeration of several small retail shops. The Whiteaway & Laidlaw Ltd., The Hall & Anderson Ltd., and the Army & Navy Stores Ltd. are examples of departmental stores in Calcutta. In these shops, there are drapery, shoe, crockery, furniture departments, etc.

The fundamental idea of a departmental store is to render service to customers. It generally keeps quality goods, and tries to be fully self-contained.

Disadvantages

Since a departmental store depends for its success upon rendering efficient service, it generally tries to cater to all sorts of tastes of customers. It usually maintains many departments which do not even pay for their maintenance costs, but they must necessarily be maintained as customers in a departmental store often like to buy most of their requirements from such a store. Even, for example, a departmental store maintains a restaurant, hair-dressing saloon and similar other non-paying departments just to please its clientele. Hence, over-head costs of a departmental store tend to be comparatively high.

By its very nature of business, a departmental store must always be centrally situated in extensive premises. Its central position renders it a good "shopping" centre, but unlike a multiple shop or an ordinary retail store, it is generally away from customers and as such tends to drive its customers to the former type of retail undertakings for the purchase of their day-to-day requirements. In order to render efficient service, a

departmental store has to maintain a highly expert class of salesmen on good remuneration. Hence, costs of maintenance in a departmental store tend to be higher than those found in a multiple shop, or any other ordinary retail shop.

As in the case of a multiple shop system, here also it is not possible to give that amount of personal attention to clients which is possible in ordinary retail shops.

Advantages

In spite of the above drawbacks, a departmental store has come to stay as a permanent feature of retail trade by its preponderating advantages.

"Service" to customers is its keynote. It also gives them enormous advantages by enabling them to buy all sorts of things under one roof.

One department tends to advertise for another of its department. Very often, it happens that a customer goes to a departmental store to buy a particular article, and in passing through the store his eyes may fall on an attractive thing which he is tempted to buy. In this way, the total sales of a departmental store tend to swell up.

A departmental store usually maintains a "delivery service" as it is called. It more often than not undertakes to deliver goods to customers' houses and thereby keeps up a very useful service.

Its central position tends to attract a good type of clientele in good numbers.)

Management and Control

(The premises of a departmental store are selected in the central place of a town. It is generally formed as a limited company, and hence managed by a Board of Directors. There is a Managing Director, who is the executive head of the concern.

There are several departments, each in charge of a Departmental Manager, who is responsible to the Managing Director for the efficient conduct of his department. When there are

several departments in a store, usually a Section Manager is appointed in charge of several departments. Then the Departmental Managers are subordinate and responsible to their respective Section Managers. Very often, the several Section Managers of a store form a Board of Management, which meets once or twice a week under the chairmanship of the Managing Director in order to discuss about the broad policies of the business of the store.

The Departmental Manager is a very important person in a departmental store. He is solely responsible for his department. Whether his department makes losses or profits will depend upon his capabilities. A great amount of freedom and discretion is given to a Departmental Manager. He buys the commodities of his department from the market at the best possible terms. He must buy goods, which can be easily sold. He must be able to forecast fashions and tastes correctly. He generally fixes the prices of articles to be sold in his department. There are always some checks imposed upon him, by giving him a fixed sum of money each week for making purchases. He can only exceed this amount under special circumstances. He is also restrained from charging too high a price, because a departmental store, in order to be popular, must always charge reasonable prices for its articles. Since a store depends for its success upon its service and popularity, the Departmental Manager pays great attention in selecting the right type of salesmen, who must be smart, courteous and attractive. Proper window display must be arranged by him. In order to attract public attention, a departmental store generally offers special bargains during season sales.

There must be a very careful record of all goods purchased by the store. It is always a suitable system to keep a store-room for stocking goods of each department separately. At first the Departmental Manager issues the order for buying the articles and keeps a copy. When goods arrive, the invoice is compared with the specifications as given in the order. They are then stocked, and each department obtains its supply according to its requirements.

A departmental store should carefully despatch goods to customers in proper condition.

Be it remembered here that both the receipt and despatch of goods are checked and supervised by the Accounts Department.

How a departmental store sells its ware is very interesting. Each salesman has a number. He enters particulars of any sale including his number on a voucher in his voucher book. The voucher is then initialled by the Departmental Manager or some other senior official of the department. The cash received with the voucher taken out from the book is sent to a central office automatically by means of pneumatic tubes, or is taken personally by the salesman to a central cash desk. Then the receipt and change, if any, are returned to the customer, the duplicate receipt is kept in the book. In order to trace the salesman through whom any article is sold, a number is given to him. When credit sales are made, all details are sent to the Cash Department which will properly collect the money. Sometimes, cash is paid on delivery of goods, and then the despatch Department sends to the vanman all details of the purchase. He collects the money and submits it to the Cash Department.

The Accounts Department of a departmental store can be said to be the key department. The money received by each department or by the central cash desks is totalled up and checked either daily or periodically with the duplicate receipts in the salesman's books. It is then sent to the Accounts Department with all the duplicate receipts. The cash is again checked here. The duplicate receipts of each department are separated, and then the total cash receipts of each department are found. This total must agree with the total submitted by the Departmental Manager who has compiled his total from the duplicate receipts out of the salesmen's books. Then the money is banked.

The Accounts Department is also in charge of paying fixed establishment expenses like wages, rents, taxes, lighting, heating, etc. It also prepares comparative tables showing sales, stocks, etc., of each department. It generally reveals whether any particular department is making losses or gains.

Questions

1. Describe the organisation of a departmental store. What are the advantages of such a store? (B. Com. Cal., 1933.)
2. What is the idea from the point of view of organisation in case of a departmental store as distinguished from the multiple shop arrangement? Discuss fully. (B. Com. Lucknow, 1928.)
3. Analyse the main features of a departmental store and account for its progress or otherwise in this country. (B. Com. Bombay, 1927.)
4. If you were placed in charge of the Sales Department of a wholesale business, what measures would you take for pushing the sales and maintenance of an office record with proper checks? (B. Com., Bombay, 1926.)
5. Distinguish carefully between a Multiple Shop and a Departmental Store, giving at least one example of each kind of business in Calcutta. (B. Com. Cal., 1925, 1940.)
6. Distinguish between Multiple Shops and Departmental Stores. Explain how you would lay out your office and the different departments to the best advantage to yourself if you are the owner of a large Departmental Store. (B. Com. Cal., 1942.)
7. What is a Departmental Store? You are the owner of a large Departmental Store. How would you arrange the lay-out of the Store in its different Departments so as to show your goods to the best advantage? Give a short sketch showing the situation of the different departments. (B. Com. Cal., 1943.)

CHAPTER XVI

BUYING AND SELLING

Sale and Purchase: Contract

The law regarding the sale of goods was contained in Chapter VII of the Contract Act which has been repealed by the sale of Goods Act. The other provisions of the Contract Act apply to the sale of goods. A contract for the sale of goods induced by undue influence is voidable under Section 19A of the Contract Act.

Contract

When articles are delivered to the buyer immediately, a contract for sale takes place, while there exists only an agreement to sell when articles are to be delivered at some future date. If an offer is made by a seller, and a buyer accepts it in full, the contract is binding upon both the seller and the buyer. If it is accepted with alterations, it becomes virtually a new offer and is no longer binding upon the parties.

A contract for the sale of goods may be written, unwritten, or partly written. A contract may be implied even from the conduct of parties, but such a contract cannot be enforced for a value exceeding a certain amount unless actual delivery of at least some part or some payment has been made. When a contract is made for the sale of articles which can be identified and are ready to be delivered, such goods are called specific goods. But if the contract is made for the sale of goods which a seller will procure, such goods are known as future goods. In the latter case, it is an agreement to sell, and contains particulars like specification of articles, the time of delivery, etc.

In order to avoid difficulties, it is always preferable to have a contract in writing, and especially in one document which can be made easily available.

The maxim of *Caveat Emptor* applies in all transactions, and it means that 'let the buyers beware'. The purchaser must look after himself and examine the goods himself. Generally speaking, there is no warranty for quality and fitness of articles

except (*a*) where the buyer notifies his intention of buying an article of particular specification and depends upon the seller for the selection of the article, and (*b*) where an article is sold according to sample. In (*a*) and (*b*) there is an implied warranty that the article should serve the object for which it is meant to be used by the buyer, or it should conform to the sample or description.

A contract for sale is based upon certain conditions and warranties. A *condition* denotes a stipulation which is essential to the purpose of the contract and its breach may involve a right to repudiate the contract and claim damages. A *Warranty* means a stipulation collateral to the main purpose of the contract, and its breach gives rise to a right to claim damages only, and not a right to reject the articles and repudiate the contract. The construction of the contract will reveal whether a stipulation is a condition or a warranty. A buyer may treat a condition as a warranty. He must do so if he takes delivery of articles, even in part, or when property passes to the buyer, unless contrary has been provided for in the contract. Though under the doctrine of *caveat emptor,* the buyer must beware, he is automatically protected by certain conditions and warranties which are implied in a contract for sale, unless something to the contrary has been provided for in the contract. It is an implied condition that the seller has a right to sell the articles in case of a sale, and a right to sell in case of an agreement to sell when the property is to pass to the buyer. It is an implied warranty that the buyer must obtain and enjoy peaceful possession of the goods. It is also an implied warranty that the articles are not charged or encumbered secretly to any third party. Implied conditions and warranties may be negatived by express conditions and warranties.

A contract for sale usually contains in full all terms regarding description, quality, price, payment, delivery, etc., of goods.

Order

Generally in ordinary transactions, *e.g.* when a retailer buys goods from a wholesaler, the former at first sends orders for his goods.

Invoice

When a seller sends goods to a buyer, he usually sends along with them an invoice for the goods. An invoice means a statement giving the description, quality, price, methods of packing, carrying, etc., of the goods. After receiving the invoice the buyer usually compares the goods with all details given in the invoice. If there is any discrepancy between goods and the invoice, it is referred to the seller for necessary correction or action. Very often an *Advice Note* is also added along with an invoice, setting forth the methods of conveyance and other particulars necessary in special cases.

INVOICE.

S. C. Bose, Esq..................*Dr.*

2, Beadon Row, Calcutta.

To Fashion Dealers,
20, Bowbazar Street, Calcutta,
Cabinet-makers and Upholsterers,

Phone B.B. 2692.

Bill No.......................... Date..........................

Order No.......................... Voucher No................

To cost of :—

	Rs.	A.	P.
1 Bed 7″ × 5″	90	0	0
2 Dressing Tables	78	8	0
1 Dressing Stool	10	0	0
2 Top Chairs	12	0	0
2 Teapoys	10	0	0
1 Clothes Horse	10	0	0
TOTAL ..	210	8	0
Less discount ..	10	0	0
	200	0	0
Less paid	20	0	0
	180	0	0

Rupees One Hundred and Eighty only.
Terms :—5% 1 month.

The terms 5 per cent. 1 month mean that if payment is made within one month, a discount of 5 per cent. will be made on total bill. Less discount of Rs. 10/- means that this amount has been already deducted from the bill. Less paid of Rs. 20/- denotes that this sum was advanced towards the price, and hence should be deducted from the final payment.

Debit Note

It is possible that by mistake a seller undercharges a buyer in a certain invoice, then a statement is sent by the seller to the buyer pointing out the mistake and showing the amount of undercharge. This statement is known as a *Debit Note.*

DEBIT NOTE.

Messrs. Ghosh & Co., Carlton Road,

New Delhi.

Dr. To Dutt & Sons., Ltd.

		Rs.	As.	P.
12th May, 1941.	To 3 Books, namely Business Organisation by Roy, invoiced at Rs. 2/- each, should be Rs. 3/- each.			
	Undercharge	3		

Credit Note

It is similarly possible that a seller has overcharged a buyer, then the seller sends to the latter a statement showing the amount which has been overcharged by mistake. This statement is called a *Credit Note.* It is the reverse of a debit note.

CREDIT NOTE.

Messrs. Ghosh & Co., Carlton Road,
New Delhi.

Cr, By Dutt & Sons, Ltd.

		Rs.	As.	P.
12th May, 1941.	By 3 Books, namely, Business Organisation by Roy, invoiced at Rs. 4/- each(should be Rs. 3/- each. Overcharge	3		

It should be pointed out here that Debit and Credit Notes may be used by both buyers and sellers according to circumstances where either undercharge or overcharge is made.

Pro Forma Invoice

A *Pro Forma Invoice* is usually used in the following circumstances :—

(*a*) In order to point out to the prospective buyer what he should pay in case he buys the goods. It is akin more or less to a price quotation, and is used where goods are sent on approval. If goods are kept, payment ought to be made according to the pro-forma invoice.

(*b*) It is used where the buyer is unknown to the seller, and the latter wants payment before the delivery of goods. The seller at first sends a pro-forma invoice, and requests for payment before delivery.

(*c*) It is sent to the Customs Authorities for evaluating goods to be consigned abroad for the purpose of assessing duties.

(*d*) It is also sent by the Principal to agents who undertake to sell goods in behalf of the former. The agents take possession of goods, and do not pay until they are sold. The pro-forma invoice is sent to the agent in order to enable him to know at what prices the Principal wants him to sell the goods.

Statement

Generally speaking, every firm sends to its customers at stated periods, monthly, quarterly or as the case may be, a

statement of account, which is really a copy of the account of the customer since it was last balanced. It shows the balance due at the beginning of the period, the dates and amounts of goods bought and payments made. It is also balanced to show what is carried forward as still owing. It serves as a reminder, and also helps both customers and sellers to see if their books mutually agree. Any discrepancy may be corrected by means of debit or credit notes. The statement contains all terms, and other comments which may be necessary, *e.g.*, kindly pay at your earliest convenience, the account is overdue, etc. If payment is not forthcoming even then, personal collector may be sent, and failing to get payment even in this way, recourse may be taken to law courts.

Payments may be made in cash, postal order, money order, cheque, bill of exchange, etc. Receipts are also issued immediately after payment is made.

STATEMENT

FASHION DEALERS,

20, Bowbazar Street, Calcutta.

BOSE & CO., 15th July, 1940.
2, College Square,
Calcutta.

DR. To Fashion Dealers.,

		Rs.	As.	P.	Rs.	As.	P.
January 1 ..	To Balance of Account rendered ..				50	2	3
,, 18 ..	,, Goods	20	1	2			
,, 25 ..	,, Goods	10	6		30	7	2
					80	9	5
January 6 ..	By Cash	40		3			
,, 20 ..	,, Returns	6	2				
					46	2	3
					34	7	2

Bought and Sold Note

In a large number of transactions, sales and purchases are made orally between buyers and sellers, especially in retail trade, stock exchange, produce exchange, auction mart, etc. In such cases, it is the usual practice to confirm all oral statements later in writing by means of bought and sold notes. A *Bought Note* is a contract note sent by a buyer to a seller stating the terms and conditions of purchase arranged orally. Similarly, a *Sold Note* refers to a contract sent by the seller to a buyer describing the terms and conditions of sale arranged orally.

BOUGHT NOTE

Calcutta,
20th June, 1941.

Bought of

S. C. Bose & Co., Calcutta.

500 bales of pucca jute at Rs. 15-8 per bale.

GHOSH, BROTHERS & CO.,
Calcutta.

A Sold Note is similar to a *Bought Note*, with the difference that instead of "Bought of," it is "Sold to."

Terms of Payment, Prices and Quotations

Price lists are very often issued by a seller. A *Price List* in the ordinary way means the prices of goods which are meant for sale. It is not an agreement to sell and these price quotations may be changed when an order comes in or the goods may be out of stock. A *Prices Current* or P/C as it is called shows the market prices of goods listed at the time the list was made. It also does not mean an agreement to sell and prices may change when an order is received.

An *Estimate* means a written offer to do a certain work or sell a certain article at a certain cost under specified conditions.

A Tender is made in response to an invitation requesting for price quotations of the supply of goods or orders, *e.g.* in case of contract works.

A *Firm Offer* is made by a seller when he promises to sell certain goods at stated prices within a specified time. It is not necessarily binding upon the seller unless it is made for exchange of valuable consideration, or by a deed.

When a quotation is sent, it is generally *Numbered,* and a copy is always kept.

Ready Delivery means that the articles are in stock and can be delivered immediately the order is received.

Prompt Delivery means delivery within a few days of the order.

Forward Delivery means delivery at some future date.

"For Acceptance within Ten Days" means that the quotation of a firm offer remains open only for ten days.

"3 per cent 5 *Days*" means that if payment is made within five days after the invoice is received, a discount of 3 per cent. will be allowed on the price of the goods.

"On Approved Account" denotes that the seller is not prepared to sell on credit, unless the buyer is known, or is recommended by the Accounts Departments of the seller as a suitable party for credit business.

"Loco" denotes the price at the factory. It usually includes costs of packing, and if it does not, the loco should expressly state it, *e.g.* Loco Calcutta factory, packing extra. *"Ex Warehouse"* is akin to Loco.

"At Station" price should mention the name of the station and does not include costs of loading articles on wagon.

"On Rail" price includes all charges of putting the goods on wagon.

"Carr. Fwd., *i.e.,* Carriage Forward" means that the costs of putting goods on rail are borne by the seller, but the freight is paid by the buyer. It is the same as "F. O. R."

"Carr. Pd., *i.e.,* Carriage Paid" means that the costs of reaching the goods to customer's place are borne by the seller.

"C. W. O. *i.e.,* Cash With Order" means that payment should be made with order or the goods will not be despatched.

"C. O. D. *i.e.,* Cash On Delivery" means that cash should be paid at the time of the actual delivery of the goods. The

postal authorities may facilitate this method of payment by V. P. Parcel which means Value Payable Parcel *i.e.*, the value must be paid when the parcel is delivered.

Spot Cash means that the cash must be paid with the order, or when the property in the goods passes on to the buyer.

Prompt Cash means that the cash should be paid within a few days after obtaining the invoice.

Net Cash means the actual cash which is payable after all allowances and deductions have been made.

Cash Discount refers to an allowance which is allowed to a buyer on the price of goods for prompt payment or payment before the debt is due. *Trade Discount* generally denotes an allowance which is made out of the price of articles to any trader who buys in order to sell again.

Tare is the name given to the weight of the container of the commodities, *e.g.*, the sack, the box, the wrapper, etc.

Draft refers to the wastage which is allowed in handling goods, and for mistakes of tare, *e.g.* leakage from bags, natural decay in handling, etc.

Gross Weight means the total weight of the goods, including the container.

Net is the result after deducting tare and draft from Gross. The price is calculated from this weight.

Consignment Account and Account Sale

Very often agents are appointed to sell goods in behalf of Principals. When goods are sent to agents, pro-forma invoices are sent along with goods. Agents do not buy the goods. Any expenses incurred by agents in connection therewith are realised from Principals. It is the usual practice for agents to deduct from gross proceeds of sale all expenses including their commission dues. This kind of sale is known as Consignment Accounts Sale, and the statement showing details of gross sale proceeds, expenses of agents, their commissions, etc., is known as the *Accounts Sale Statement.*

Questions

1. Give the particulars usually stated in an invoice. What is a Draft? Is it of an invariable quantity? (B. Com. Cal., 1928.)
2. Explain *Caveat Emptor*. Explain the distinction between Condition and Warranty.
3. What do you understand by Tare and Draft?
4. What is a Pro-Forma Invoice? Describe some examples of its use.
5. Explain Debit Notes and Credit Notes.

CHAPTER XVII

MAIL-ORDER AND OTHER TYPES OF RETAIL TRADE

The mail-order business is another type of retail trade, though it is not yet widely practised anywhere. The limited scope for this type of business is inherent in its own nature. In India, too, some are trying this type of retail trade.

The mail-order business refers to that type of retail business where buying and selling are done by post. Sellers advertise their goods and reach these goods to their prospective buyers through post, and the latter also buy through the same procedure. No personal contact is made in this type of business.

As buyers purchase the commodity through post, and do not inspect the goods personally, it means that they have to rely upon what they have come to know about it from seller's description, recommendation and advertisement. It is, therefore, more suited to commodities which can be graded, and are of a standardised quality.

The customer can obtain the article simply by writing without going to the shop. It saves expenses and troubles on the part of the customers.

As selling and buying are done through post, the sellers do not need to maintain any expensive establishment, shops, or salesmen.

In order to make this type of business a success, it will require expert drafting of sales letters. After the letters are issued to prospective buyers any reply must be carefully attended to. If an enquiry is made, that query should be carefully pursued with patience, until it actually results in a final order, that is to say, a very efficient follow-up system should be practised.

If practised properly and carefully, the mail-order type of business may expect to attain reasonable success in a certain

class of goods, though its limitations will always be marked by customers' demand of personal contacts and touches.

Disadvantages

There is no personal contact between the buyer and the seller. As the buyer purchases the article only by mere description, he has no chance of examining it personally before the price is paid. Hence, there is the chance of unscrupulous sellers taking advantage of the unsuspecting public. The advertisements and appeals made in this type of business are usually stereotyped and hackneyed, and they cannot, therefore, suit individual tastes and aptitudes. In a retail shop, if a customer does not buy a commodity, it is easy to ascertain his mind. In a mail-order business, it is not possible to know the reasons why customers do not buy the goods.

Organisation

In a mail-order type of business, there is no necessity for stocking a large amount of goods. It is possible to get them gradually along with orders.

It is common to resort to this type of business in order to dispose of the old stock. A big publicity campaign is undertaken in order to sell a large stock of old articles through the mail-order business.

In order to achieve success in this line of business, two things are fundamental, namely (*a*) selection of proper customers and (*b*) careful and scientific publicity. Right types of buyers' lists must be made out according to the nature of goods to be sold. This may be done from various sources, *e.g.* the Official Gazette, Thacker's Directory, Telephone Guide, List of Motor Car Owners, etc. Advertisement and publicity should be scientifically planned so as to obtain maximum results.

In mail-order business, payment is often made on C. O. D. system, that is to say, cash is paid on the delivery of the goods. This is facilitated by the Post Office through the V.P. Post, *i.e.*, the value payable post.

The mail-order business has been making much headway in the United States of America. Its scope in India is also likely to be great. One can do this business with a small amount of capital, provided he has the skill and energy required.

Kinds of Mail-Order Business

There may be three types of mail-order trade, namely (*a*) the *Manufacturing Type*, where the manufacturers sell goods directly to customers through post without requiring the assistance of middlemen. (*b*) The *Departmental Type* denotes that kind of mail-order business, where it is done by a departmental store. It is usually undertaken especially in selling some old stocks by means of intensive and extensive advertising campaigns. (*c*) The *Middleman Type* of mail-order trade refers to that kind which is undertaken by the ordinary retailers. This is the most common type. Ordinary retailers or middlemen start this kind of business in order to sell goods to customers like any other retail shop.

Fixed Price Shop

Some retail shops are now coming into existence, and they generally sell all their goods at one and fixed price. Each commodity in such a shop carries the same uniform price. Thus, for example, a shop stocks several kinds of articles like soaps, pencils, utensils, toys, etc. Each kind of article can be purchased at the same price of annas six only. There is no higher price for any article stocked in such a shop. Examples of such stores are the Woolworths and Spencers in England and America. Both shops are so popular that now they have a chain of such stores scattered throughout England and the United States of America. They are hence examples of both multiple shops as well as of fixed price shops. Similar proto-types are not yet found in India. There is a good possibility for such shops here, especially, if they deal in cheap goods which are required for ordinary needs of life. Such shops are likely to be practical successes, provided that they deal in commodities of general use. The advantages of such stores are that the

customers can obtain many kinds of goods under one roof as in case of a departmental store, and the question of higgling and bargaining does not arise because prices of goods are fixed and the same.

Questions

1. Discuss the causes of the growth of mail-order business in recent times. In what lines is this method particularly suitable?

   (B. Com. Bombay, 1928.)

2. Discuss the nature of a Fixed Price Shop, and in which line of goods is it likely to succeed?

CHAPTER XVIII

DOCKS AND WAREHOUSES

Economic Significance

In these days of international trade on such a vast scale it is easy to see the enormous importance of both docks and warehouses.

Docks and harbours have rendered it possible to enable shipping to be extended on a big scale in order to cope with the increasing demand made on it by trade and commerce of the world.

Storing or warehousing goods in proper places in connection with both foreign as well as inland trades can never be exaggerated. When goods arrive at ports either on importation or for export purposes may not necessarily find ready room for disposal either in ships or in the country, and must needs be stored for some time. In these days of specialisation, a special class of people has undertaken the task of keeping in custody goods in behalf of producers, merchants and others, although some people may store goods ih their own warehouses. Proper storing requires careful handling of goods, and stores should be so built as to keep intact the quality and quantity of goods stored and stocked.

Warehousing is fundamentally important for smoothing price fluctuations. When goods are stored, they can be supplied to the market in gradual instalments according to demand. Warehousing is imperative in the modern system of production. Manufacturers produce far in advance of demand, and they must have proper warehousing facilities.

Business men can supply goods cheaper by storing them in places near to and convenient for customers.

The importance and necessity of warehousing have encouraged the growth of specialists who are undertaking the business of providing for suitable warehousing facilities. Warehousemen

now undertake the responsibility of keeping and storing the goods in proper order. They are also rendering some ancillary services, which have helped traders and manufacturers to reduce costs in several directions. They are undertaking to load and unload goods from ships, railways, etc. They use modern scientific and expensive mechanical contrivances for handling goods. Thus, for example, suction pipes are used for grain, pumps for oil, cranes for bulky commodities, etc. It is not possible for any individual manufacturer or trader to buy and use such mechanical devices owing to prohibitive costs. The warehousemen very often undertake to carry or arrange for the carriage of goods which may be transported either by cars or lighters. Those who are licensed to do so by means of cars are known as licensed *Carmen*, while the licensed *lightermen* usually utilise lighters.

Bonded Warehouse

In the import trade, some commodities must pay duties on importation before they can be taken away from the docks. But there are certain warehouses which are licensed and authorised by the Customs Authorities to store such commodities before the payment of import duties. These warehouses are known as *Bonded Warehouses*. They may be Government or private warehouses. In case of the latter, the Government usually supervises and controls them. The bonded warehouses enjoy certain privileges and advantages.

When commodities are warehoused in bond, they may be inspected, handled, sampled, etc. by the owners. They are generally shown in bond to prospective buyers, so that goods may be removed on the payment of the duty after arranging for their sales. Packing, grading, blending, vatting, etc., may be carried out. These advantages are particularly helpful in case of commodities which are meant for re-export. In carrying out the above functions, the owners are considerably assisted by the export warehousemen.

The goods in bond enjoy another great advantage, namely that they may be removed from the bonded warehouse in instal-

ments and the duty is paid only on that amount which is so removed. Thus, for example, if fifty cars are in bond, they can be gradually taken out according to demand, and the duty is only paid on each car as it is removed from the bond. This obviates the difficulty of the importer of paying the entire duty on the total amount of imports, and hence there is no necessity of locking up a large amount of capital in the form of import duties.

It should, however, be remembered that since the bonded warehouses enjoy certain special advantages, they are subjected to strict supervision of the Customs Authorities. Before interfering with the goods in bond in any way, a special permission in the prescribed form must be obtained from the Customs Authorities.

Bengal Bonded Warehouse

The Bengal *Bonded Warehouse* is situated at 102, Clive Street, Calcutta. It is a public limited company, and was incorporated as "Bengal Bonded Warehouse Association, Calcutta" by the special Acts of 1838 and 1854. Its authorised capital was Rs. 13,50,000 divided into 2000 "A" shares of Rs. 500 each, 2000 "B" shares of Rs. 62/8 annas each, 2000 "C" shares of Rs. 100 each, and 2000 "D" shares of Rs. 12/8 annas each. All shares were issued, subscribed, and fully paid up, and carried equal rights. The warehouse was established with the object of building and buying warehouses in Calcutta for storing goods in bond or otherwise.

Dock and Warehouse Warrants

Both docks and warehouse warrants are documents to title of goods stored, and they generally contain the name of the person to whom, to the order, or to the endorsement of whom the goods stored are deliverable. When dock warrants are issued, it is implied that all landing, loading or unloading charges have been paid, and freights also paid, or settlement thereof arranged for.

Prime Warrant

It generally refers to a single warrant issued for a number of packages, or for the entire quantity of goods stored, and is usually issued when the owner of goods stored, wants to raise money on the hypothecation of such goods.

Dock and Warehouse Receipts

Dock and warehouse receipts are merely acknowledgments of goods stored, and do not convey any title to such goods.

Delivery Orders

A dock or warehouse warrant confers the right of title to all goods stored against which such a warrant is issued, but when a part of such goods is to be removed, then the owner will issue a delivery order, stating that "deliver such and such goods against this sub-order" and the warehouseman will deliver the goods specified in the order to the person mentioned in the delivery order or to his order, as the case may be.

Warehousing in India

In India, the scope for constructing well-made warehouses is very great indeed, and storing may be profitably undertaken by a special class of warehousemen who would like to make a business proposition out of it. Possibilities of good warehouses are not only great at the ports, but throughout the country, especially in rural areas. India offers potentially a vast field for building up good warehouses. Properly constructed warehouses in India will add to the country's wealth by not merely helping the purse and pocket of warehousemen, but also by improving our marketing, especially of agricultural products. At present a major part of the price which is paid for agricultural products is usurped by middlemen. This is due to the fact that cultivators are unable to stock goods, which they are compelled to sell immediately after harvest and so they always get low prices. The entire produce is brought to the market all at the same time. The middlemen or mill owners

buy agricultural products just after harvest, and store them. The agriculturists' position can be considerably improved if they are provided with proper facilities for warehousing their goods. The possibilities of building up successful co-operative warehouses in this country are indeed quite bright. It may be noted here that in the Madras Presidency fifteen warehouses have been constructed for ground-nuts. These are managed either by the Government or Co-operative Societies.

Questions

1. What is a Bonded Warehouse? What are the advantages of Warehousing? (B. Com. Cal., 1938.)
2. Docks and Warehouses are essential adjuncts of modern trade. Discuss.
3. Discuss the possibilities of Warehouses in India, and describe the constitution of the Bengal Bonded Warehouse Association, Calcutta.

CHAPTER XIX

THEORY OF INTERNATIONAL TRADE

International Trade

In the modern world international trade takes place on a vast scale. By the latest methods of transport, means of communication and transmission of news, different parts of the world are practically knit together as a consolidated unit. Now-a-days, countries always tend to concentrate on producing commodities in which they are most efficient, and then they mutually exchange their commodities according to individual needs. In other words, international trade is a mere application of the principle of division of labour practised on a very wide scale.

Theory of Comparative Costs

The basis of modern international trade is fundamentally economic, and international trade has been found to contribute to the maximum economic well-being of the world, because of its essential reliance upon principles of comparative costs. The theory of comparative costs holds out the truth that in every line of production, costs of producing different commodities in several countries are compared, and then each country tends to specialise in the production of that commodity in which its costs are most favourable. It may also be true that a country, which takes up a line of production may possess comparatively superior advantages in costs of production in another line too, as compared to that of another country, but even then the former will leave the production of the latter to the less efficient producing country from the standpoint of maximum economic return. This type of example is generally true where the more efficient country tends to specialise in the more valuable economic product. Thus, for example, if A can produce 10 units of artificial silk, and 8 of wheat for each expenditure of Rs. 10, and B can produce 8 and 6, respectively, then under the theory of comparative costs it will redound to greater economic prosperity

if A produces only artificial silk, leaving B to produce wheat. Artificial silk being more valuable, A will do better to spend all its available producing resources on artificial silk than by splitting them over both lines of production.

Infant Industry Argument

The flow of international trade is not allowed to run its full course, and international trade in the modern world has been hampered by various factors, economic, political, social, etc. From the economic standpoint, it is argued and with good reasons that the principle of comparative costs cannot be said to have its trial, especially in view of new and undeveloped countries like India and China. Comparative costs of production cannot claim to be absolute. In a country like India where industrial renaissance is in a nascent state, and new industries are just developing, it is not possible to obtain really economic costs of production in a comparative sense. After allowing the new industries to develop fully, such estimates may be made. If India can be given opportunities, initially, by some protective measures, such industries may prove to be economically justifiable from the comparative point of view. Hence, persistent demands are made to protect the new industries during the early period of their growth under what is known as the Infant Industry Argument. The contention is that if they are allowed to attain maturity in this way, later they may be relied upon to get on by themselves, and compare favourably with those of other countries. India has been practising the principle of protecting her infant industries for sometime by following the principle of discriminating protection, and as a result we find that industries like those of cotton, iron and steel, sugar, matches, etc. can claim to have successfully established themselves in an economic sense.

Economic Nationalism

Apart from real economic factors, the growth of international trade has been hindered by extraneous factors, mainly of a political nature. Nations are mutually suspicious of one another,

and no one likes to depend upon any other in matters of economic resources. This has engineered the feeling of economic self-sufficiency, giving rise to economic nationalism. Countries are attempting to reduce international trade to the minimum extent possible, and economic self-sufficiency has been rigidly and scrupulously practised in what are known as the key or war industries.

Trade Agreement and Quotas

International trade is now regulated and controlled. A country may entirely shut out its imports by a complete measure of prohibition.

Imports into a country may be restricted. Generally, countries regulate the volume of their foreign trade by mutually entering into agreements amongst themselves. Bi-lateral trade agreement, entered into between two countries, is a popular method of modern trade intercourse, as for example, the Indo-Japanese trade agreement. The Ottawa Trade Pact is an example of multi-lateral trade agreement where several countries become parties to any such agreement regulating trade amongst themselves.

By mutual trade pacts, countries generally regulate their trade on the basis of quotas, that is to say, under the trade agreement the contracting countries are given definite quotas of imports and exports in certain specific commodities. Thus, for example, under the Indo-Japanese Trade Pact, Japan can export to India a fixed quantum of cotton piecegoods in exchange of her offtake of a fixed amount of Indian cotton.

The Most-Favoured-Nation Clause

The most popular method of restricting imports into any country is through the mechanism of import duties. Countries may levy differential import duties upon the same article of different countries, one country paying a higher import duty than another. When such is the practice of a country, other countries generally enter into a trade pact with the former by putting in the most-favoured-nation clause. Under this clause,

the countries who are parties to it will only pay the minimum import duty, and in case of any alteration in the rate of duty, duties in their case will be proportionately dealt with. That is to say, if the existing import duty is reduced, most-favoured-nation agreement countries will also receive equal and proportionate reduction of the import duty in case of their goods. England, for example, has effected the most-favoured-nation clause with Japan and several other countries.

It should be remembered that trade agreements in various forms generally serve as useful weapons in the bargaining counters for reciprocal trade relations amongst the countries.

Chambers of Commerce

Amongst the various institutions for furtherance of trade, Chambers of Commerce, consisting of manufacturers, financiers, merchants, etc., rank prominent. They are generally voluntary associations, and exist for benefiting their members.

In Calcutta, the Bengal Chamber of Commerce consisting of European members, the Indian Chamber of Commerce, and the Bengal National Chamber of Commerce are doing useful economic functions. They generally supply useful and helpful trade information, assist their members in successfully doing their trade and business, and aim at maintaining a standard of honesty and integrity amongst the members.

Chambers of Commerce also undertake to enlighten the public on various economic matters, and help them to form a right public opinion. In case the Government of a country proposes to initiate any legislation regarding trade and commerce of the country, chambers of commerce generally ventilate their views, and try to present a united front to the Government from the commercial community, so that its interests and rights may remain unimpaired.

Advantages of Internatioal Trade

The advantages derived from international trade are more or less similar to those which follow division of labour and localisation of industries.

It enables each country to produce at its maximum capacity under minimum costs commodities in which it possesses best possible advantages in a comparative sense. It thereby adds to world's maximum productive capacity, and each country can obtain all its necessaries under the most advantageous conditions.

International trade enables each country to obtain commodities which it cannot produce itself. The interchange of commodities amongst nations brings about a common feeling of union, and ensures thereby peace and happiness in the world.

International trade brings into its orbit a wider area of supply and demand, and as such leads to greater stability in prices.

Disadvantages of International Trade

Some disadvantages have been already pointed out. The concentration of industries in one area may lead to difficulties which follow specialisation.

Under a system of international trade, it is possible that one country which has the advantage of starting an industry first may tend to prosper at the cost of another country which may possess latent superior advantages in similar line of production. International trade may give rise to unfair means of competition by means of dumping, subsidies, and similar other measures. It may lead to the exploitation of a country's vital resources, e.g. iron, coal, etc. The inter-dependence of one country upon another may lead to dangers in case of a break-down of the system of international trade.

Balance of Trade

In principle foreign trade is similar to home trade. Each individual buys and sells commodities. In the home trade, transactions are closed by cash or cheques, because the same internal currency is acceptable to all. But in international trade, an importer must pay the foreign exporter by means of foreign money which is acceptable in the country of the latter. Hence the usual practice is that the foreign exporter draws a

bill upon the importer, which is accepted and payable by the latter. The importer can also pay the exporter by buying a bill drawn upon some one residing in the exporter's country, and then pay it to the exporter. Or the importer may pay the exporter by sending the latter actual gold, which is money in the international sense. Since the latter method of payment is very expensive, the usual practice of payment in a system of international trade is often by means of bills of exchange.

Generally, it is the principle in international trade for a country to pay for its imports by means of its exports. Imports and exports of a country should always balance, and this balance is the healthy sign of international trade. When they do not balance, certain forces are automatically brought into play, and a balance is again effected. When there is no balance, the difference is generally equated by movements of gold, which restore the balance. Just as we find that the income of an individual equates his expenditure, similarly we find that what one country can buy will depend upon what it can sell. An individual earns an income by selling goods, services, or both, he can then spend what he earns. Similarly, a country earns its income by selling goods, services or both, and then it can spend what it actually earns. Hence, imports should always balance exports.

Cyclical Trade Fluctuations

In the economic world, it is always observed that periods of prosperity and depression follow alternately at regular intervals. Trade boom and depression tend to move in cyclical fluctuations. Various causes have been explored, and explanations offered, but none can yet explain fully the reasons why this phenomenon is inherent in our present economic system.

W. S. Jevons tried to explain the *Trade Cycle* by means of the "Sun Spot Theory." There are certain periods, when spots on the sun reach the maximum, and failures of crops depend upon the movements of these spots. Hence, Jevons attempted to connect the cyclical trade fluctuations with physical causes. This explanation of Jevons is not enough. It may

be true that the spots on the sun influence the crops, but it does not explain why and how other trades and industries are affected. When a depression sets in, it spreads to all industries alike, but the failure of crops cannot bring in its train automatically a depression in all trades and industries. If it does affect other trades at all, it will take some time to do so. Hence is the defect of the "Sun Spot Theory" as a full explanation of the *Trade Cycle.*

No single cause can be attributed to this phenomenon. It is due to a multiplicity of factors. It is easier to explain the cause of a depression in a particular industry, but not so when a dullness prevails all over the economic field.

The Trade Cycle is due more to psychological reasons than anything else. In the present economic world, all industries and trades are inter-linked with one another. Production in one industry is consumed by those engaged in production elsewhere. Consumers of one class of commodities are producers of another kind. Hence, production all round can be consumed provided there is prosperity in all directions. Unless production is duly marketed and consumed, a trade depression sets in ; prices tend to fall, profits decline ; production is curtailed, unemployment ensues, and a vicious circle is created.

Modern production is done in anticipation of demand. Generally, the leaders of certain industries anticipate good demand, and they start producing in large quantities. Their examples are followed by the rank and file. A feeling of optimism pervades the entire economic horizon. There is more production in all directions, prices go up, profits ensue, more employment results. Everybody feels that there is good time ahead, and hence there is a trade boom. Similarly, when the leaders in certain trades and industries anticipate bad times, they act accordingly, others follow, and a depression sets in.

Amongst other factors which accentuate cyclical fluctuations, bankers' credit and illegitimate speculation rank very high. By an extension or a restriction of credit, bankers can influence production to a great extent. Trades and industries tend to expand on a feeling of optimism as long as bankers

continue to allow credit. Immediately the banks start restricting credit, a brake is put on production, and a depression is likely to appear. Illegitimate speculators also cause fluctuations by wrong calculations and anticipations. Thus we may say that banks and speculators can regulate and control fluctuations to a considerable extent by following cautious and prudent policies.

Questions

1 What is meant by 'Balance of Trade'? Is a favourable balance of trade always a sign of prosperity? Discuss fully. (B. Com. Cal., 1934.)

2 Explain clearly the difference between Industry and Trade. What do you mean by International Trade? Fully discuss its utilities. (B Com. Cal., 1935.)

3. What is a Trade Cycle? Analyse the causes of cyclical fluctuations of trade.

4 Describe in detail the Infant Industry Argument.

5. How International Trade is now regulated? What is the Most-Favoured-Nation Clause?

CHAPTER XX.

EXPORT TRADE

The Export Trade is undertaken by a number of different people consisting of manufacturers, export merchants, commission agents, etc.

Export Procedure: The Order or Indent

The first step in an export transaction is generally the receipt of an order or indent for the goods to be shipped to the prospective importer.

The term "indent" arises from the old custom, when such order used to be made out in more than one copy, and then each of them indented or torn at the edge arbitrarily. This was done to keep the identical copy of an order. Now, this practice is no longer in vogue, as exact and similar carbon copies can be made of the same order.

Usually, an indent should contain full and detailed information about (*a*) details of the goods required, its quality, quantity, size, marks, etc., (*b*) price, (*c*) packing and shipping instructions, (*d*) date of shipment, and (*e*) methods of reimbursement.

Indents are usually of various types and made according to commodities.

An indent may be an "open" or a "closed" one. It is open, when the importer leaves some option to his buyer in the exporting country, regarding the selection of goods, prices and marks, etc. In a "closed" indent exact description, price, quality, etc. of goods are generally given, and the importer's buyer in the exporting country merely acts as a medium. In these modern days of advertising and quick dissemination of news, the latter type of indent is more often to be met with.

When the prospective importer mentions the price of the commodity in an indent, it may happen that it is not acceptable

to the exporter. In such an event an indent may pass backwards and forwards until it is finally accepted by both parties, when a final or a "confirmatory" indent ensues.

After an indent is finally accepted by the exporter, arrangements are made for the shipment of the goods.

Freight

The exporter or the shipper will now book the *Freight* at the most convenient terms possible and obtain a *shipping order* from the owner or the agent of the vessel in which the goods will be transported. A Shipping Order means a contract to transport commodities on board a vessel from one place to another in exchange of a consideration called *freight*. It conveys an order or advice from the owner or agent of the vessel to its Commanding Officer to receive certain specified goods on board the vessel from the party who has contracted to ship the goods specified in it and issue a receipt thereof. A shipping order must bear a one anna stamp. The exchange rate for freight is generally the rate for demand drafts as fixed by the Bengal Chamber of Commerce. The freight on measurement cargo is ascertained from licensed Measurers' Certificates which are presented along with the bills of lading to the owner or agent of the ship. A ship or a part thereof may also be hired by means of a Charter Party.

Letter of Credit

Immediately after the order is accepted, the exporter will demand from the importer a Letter of Credit which can be arranged through the local banker of the foreign merchant. This type of credit is usually Confirmed and Irrevocable. If the reputation of the foreign buyer is very high, a mere Bank Reference is enough for the purpose of exporting the goods to him.

A certain amount of deposit or even the full payment of the price of the goods to be shipped may be demanded before the shipment in certain cases, especially in case of new foreign buyers.

Exchange

The next thing for the exporter is to fix up with a bank, usually an exchange bank his *Rate of Exchange.* When the exporter is usually paid by the importer in foreign money, the exporter must be sure of exchanging the foreign money at a certain fixed rate in terms of his own currency at the time of receiving his payment. This he can do by contracting with a bank previously to exchanging the foreign money at a fixed rate agreed upon between the bank and himself at some future date. Otherwise, he will be subjected to the fluctuations in exchange. Generally, it is the usual practice for shippers to arrange with a bank that for a particular period, say a month, he will be allowed a certain fixed rate of exchange for a specified amount. An exporter can also secure his payment by means of buying forward exchanges.

Insurance

After this, the exporter will arrange to cover the goods against maritime risks by means of a Marine Insurance Policy. The exporter pays the premium, and requests the insurance company to issue the policy, which is usually given in triplicate. Where, however, the contract rate is C. & F. or F. O. B., the importer himself may arrange for the insurance of the goods.

Shipment

Now, arrangements are made for the shipment of the goods.

Permit of Collector of Customs

Now, the exporter should obtain the Permission of the Collector of Customs to export by filling up a Customs House Challân, and observing other necessary formalities.

Commissioners' Charges

Then as soon as the time of the departing of the vessel is notified, the exporter should pay the river dues and other charges known as the *Port Commissioners' Shipping Charges* at the

office of the latter at the rate of Re. 1-4 annas per ton and obtain receipt thereof.

Certificate of Weightment

The shipper then receives two copies of the *Certificate of Weightment* issued by the Measurers' Superintendent of the Licensed Department of the Bengal Chamber of Commerce, especially in case of jute export. One of these is sent to the consignee, and the other is retained by the shipper.

Customs Formalities

Now, the shipper must sign a Customs Challan for noting in the Customs House, and for the payment of the export duty, if any. *Noting* means recording all goods dutiable or otherwise in the Customs Register, which keeps a record of all exports. Then the Licensed Clerk or the Jetty Sircar as he is called must fill up the Customs Export Challan or Pass for the shipment of the goods, and get it countersigned by the exporter. This Customs Challan is generally called the Shipping Bill for Dutiable or Free Goods or it is very often known as the Shipping Bill.

This Challan must be filled in duplicate, and the original copy must be first filed with the Calculator in the Export Department of the Jetty Collection Office for the payment of the Port Commissioners' Shipping Charges. The Calculator puts down on it the amount payable and hands it over to the Cashier by his side. Then the Cashier informs the Sircar of the amount payable. After receiving the payment, a receipt is issued, it is attached to the original Shipping Bill, and they are all returned by the Cashier.

Next, the *Rotation Number* of the ship in which goods are to be loaded should be put down in the Shipping Bill. A Notice Board is found in the Customs House giving the Rotation Number of the ships which are due to start.

Then the Shipping Bill, both original and duplicate, should be filed in the Customs Export Department along with the receipt for the shipping charges. The Export Calculator puts

down the amount of the export duty, if any, payable on the original Shipping Bill, which should be now taken to the Accounts Department, and there an Account Number will be given to it. After this the Bill is taken to the Cashier in the Cash Department, and on receiving the amount paid for the duty, the Deputy Cashier issues a receipt. The receipt is given in a special form, supplied free. The usual practice is for the Jetty Sircar to fill up this form, attach it to the Bill before presenting it to the Cashier for the payment of the duty. After this, only the duplicate Shipping Bill is obtained from the place where both the original and the duplicate Shipping Bills were first filed.

Then this duplicate Bill is presented to the Customs Office at the Docks where the ship may lie, or to the Preventive Officer on board the vessel, if the vessel is at the Jetty.

After receiving the duplicate Bill from the Customs Office at the Docks or the Preventive Officer, the Jetty Sircar or an agent of the exporter goes to the Docks with the Shipping Bill, the Shipping Order and the Customs Export pass. The commodities may be put on board the vessel either from the Jetty or directly from the boats loaded with cargo by the side of the ship.

When goods are put on board the vessel through the Jetty, a Jetty Challan or Shipping Challan is filled up, and the Superintendent in charge of the Jetty gives the permission for the shipment of the goods after all Jetty charges are paid. The Shipping Order is given to the ship's clerk, the Customs Pass is sent to the Dock's Customs Office, and the Jetty Challan is passed on to the Shed Foreman or the Export Shed Officer, who receives the commodities and issues a receipt. The latter is generally exchanged afterwards for a Mate's Receipt, which is obtained from the Collection Office at the Jetty.

When the commodities are put on the ship directly from the boats carrying the goods alongside the ship, the Shipping Order and the Customs Pass are sent directly to the Chief Officer of the ship, and he issues a receipt called the Mate's Receipt.

Original

SHIPPING BILL FOR DUTIABLE GOODS

C. H. No. 414.
Calcutta.

ROTATION No. 275-26.

Name of vessel		Master or Agents		Colours			Port at which goods to be discharged		
Packages									
Number and description	Marks and Numbers	Quantity	Description	Real value as defined in the Sea Customs Act.		Duty		Country of final destination
				Rate	Amount	Rate	Amount	

I hereby declare the particulars given above to be true.

Exporter's Name, Address and Signature

Dated.................................

Signature of Agents if Acting for Exporter.

Dock's and Mate's Receipts

After an indent is accepted by the exporter, arrangements are made for the shipment of goods.

If goods are delivered to the dock, a dock's receipt is given for the goods so delivered. When goods are directly placed on board a vessel, a receipt for the goods so loaded is issued either by the Chief of the ship known as the mate of the ship or by somebody in his behalf, and such a receipt is known as a Mate's Receipt.

Both dock's and mate's receipts are to be exchanged subsequently for a bill of lading.

MATE'S RECEIPT No.. ......

No...............

NOT RESPONSIBLE FOR COUNTERMARKS AND NUMBERS.

Subject to the Provisions of the Indian Carriage of goods by Sea Act 1925.

SHIPPED, in good order and condition, by .... on board the Ship ....whereof is Master for this present voyage.......... ....lying in the port of CALCUTTA with liberty to discharge and receive goods and passengers, to take in coal or other necessary supplies at any intermediate Port or Ports, to sail with or without Pilots, to tow and assist vessels in all situations of distress.

cwts qr. lbs.

gross

nett.

.... .being marked and numbered as per margin; and to be delivered, subject to the exceptions and conditions hereinafter mentioned, in the like good order and condition, from the ship's tackles (where the ship's responsibility shall cease) at the port of.......... or so near thereunto as she may safely get, unto.......................... .... or to his or their assign. Freight for the said goods at the rate of............................. per ton of....... ....to be paid by . ...at................... ......in cash without deduction, ship lost or not lost.

It is expressly agreed that the General Average will be settled according to the York Antwerp rules 1924. The statement of General Average will always be drawn up at the port of Trieste or Genoa, at shipowner's opinion.

The following are exceptions and conditions above referred to:

Weight, measure, quality, contents and value unknown.

Tons.

The Act of God; the King's enemies; pirates, robbers by land or sea, etc.

at the rate of .....per 40 cft.
ton of...... cwt.

The Ship is not liable for insufficient packing or reasonable wear and tear of packages, etc., and several other conditions.

Amount of Freight......
£...........

@ ex.

IN WITNESS where of the Master or Agent of the said Ship has signed...................... Bills of Lading, exclasive of the Master's copy, all of this tenor and date, one of which being accomplished the others to stand void. Dated

Rs......... at Calcutta, on......................10 .

..Signature of

Agents of Steamship Company.

Bill of Lading

When the goods are either in the dock, or in the ship ready for despatch, the exporter starts preparing bills of lading and invoices, and also insures the goods against marine and other risks in transit.

The bill of lading is by far the most fundamental document in foreign trade.

In preparing a bill of lading, the exporter should incorporate the following information, namely (*a*) name of the ship, (*b*) place of loading and destination of the goods, (*c*) description of goods, (*d*) date, (*e*) freight, and (*f*) name of the consignee.

After filling in these points, the exporter sends the bill of lading to the steamship company. Generally dock's and mate's receipts are also sent along with the bill of lading. Immediately after this, the steamship company prepares a Freight Note, that is, the invoice of the charge for carriage of goods, and sends it to the exporter. The latter either pays the freight, or the payment thereof is satisfactorily arranged for. Then the steamship company carefully scrutinises the bill of lading, checking every detail given by the exporter, and returns the bill of lading to the exporter after getting it countersigned by the master of the vessel (which will carry the goods), or by somebody in his behalf, together with the freight note, if freight is paid in advance. Where freight is paid at destination, the bill of lading is marked "Freight Forward" and in such a case when the importer presents the bill of lading, the shipping company, or any of its agents will give him a freight note, and stamp the bill of lading with a "Freight Release" after freight is duly paid, when goods may be delivered.

If a bill of lading is simply signed by the master of the vessel, or by one of his accredited representatives, it is a clean bill of lading. But, it becomes a foul one if the bill of lading is signed, subject to a remark like "goods damaged" or similar such note. As the latter type of a bill of lading may result in trouble, the exporter always insists upon the steamship company to issue a clean bill of lading, and in return he gives a Letter

of Indemnity to the steamship company undertaking to indemnify the latter against any claim for damages against the Company.

Thus, we find that a bill of lading is a vastly important document. It is really an official receipt by the steamship company for the goods to be shipped. It conveys the name of the consignee to whom or to whose order the goods may be delivered. If no name of consignee is mentioned, then the exporter should consign the goods "to order," and should endorse it before parting with it, in order to expedite the discharge of the goods at the destination. Since a bill of lading conveys the name of the consignee, it is definitely a document of title to goods. No goods on ship can be delivered without producing the bill of lading. As it is a document of title to goods, it is freely transferable by endorsement and delivery.

Since discharge of goods is not possible except through the bill of lading, care is always taken to see that the importer may get the bill of lading in time to take the delivery of goods. It is the general practice to make out five copies of a bill of lading, each bearing reference to the other, three are signed and stamped. Two of the latter, and even three are sent by different routes and means to the importer, who can then be reasonably assured of getting at least one of them in time. One of the unsigned copies is retained by the master of the ship, and is known as the "Master's Copy."

Freight and Primage

The shipping company generally makes a bill for freight which must be paid or arranged to be paid before the delivery of the shipping documents like the bill of lading, mate's receipt, etc. to the exporter. The freight bill is known as the *Freight Note.* In addition to calculating freight at the usual tariff rate of the shipping company, another charge equalling 10 per cent. of the freight is added to it for the supervision of loading. This charge is technically known as *Primage,* which is now included

in the freight. Formerly, however, it was payable to the Captain of the ship.

FREIGHT NOTE

Calcutta, 5th July, 19 .

MESSRS. DUTT & CO., 2, Hare Street, Calcutta.
DR. To The P. & C. Steamship Company, Ld.

JE.		Mds.	Srs.	Chks.	Rate.	Freight.			Total.		
						Rs.	As.	P.	Rs.	As.	P.
Hongkong	10 Mds. of rice	10			8 Ans. per Md.	5	-	-	5	-	-

Invoice

Then the exporter prepares the *Invoice*, containing all particulars of the goods, *e.g.* the description, quality, price, marine insurance policy, payment either D/P, D/A or D/D and the name of the bank, if any, as per letter of credit opened in favour of the exporter by the importer. The invoice is made out in four copies, two of them being sent to the importer through the bank along with other documents in connection with the shipment of goods. Another copy is sent directly to the consignee, while the fourth one is retained by the exporter.

An invoice is a written statement sent by a seller to the buyer of goods stating quantity, quality, price and nature of goods.

Sometimes, a merchant sends goods to an agent who is authorised to sell them in behalf of the merchant, and then to send an account of sales to the merchant. In such cases, the merchant sends a specialised form of invoice known as a *Pro Forma Invoice* to the agent stating quantity, quality, description, etc., of goods, while price particulars are only mere indications as to what prices the agent is expected to sell. The actual prices at which the agent sells may be lower or higher than pro forma invoice prices.

Bill No..............negotiated with the..................
Freight paid in Calcutta.
Insurance covered by..............ourselves.
Letter of Credit No..............Dated.
Bill of Lading No..............Dated.

SPECIMEN INDENT

Indent No. 206 . 2, Church Lane, Calcutta.
MESSRS. JOHN & CO., 17th July, 19 .
12, Leaden Street, London, W. 1.
Dear Sirs,

Kindly buy and ship on our A/C. the following commodities:

Delivery C. I. F., Calcutta.

Payment: Draw D/A through the Mercantile Bank of India Ltd., Calcutta.

Ship By P. & Co. Delivery before 15th Nov.

Yours faithfully,
ROY & CO.

No. Gr. Quantity.	Description.	Price or Quality.	Remarks.
12 doz.	Parker Fountain Pen (Dufold)	"A" quality	
4	Motor cycles (B.S.A. make)	"Sunbeam" mark	Put on the mark "Roy & Co."
50	Attache Cases	Suede	
30 gross	Pencils	Red and Blue Lead	Put on the mark "Roy & Co."

INVOICE

Telegram Address: GOSO. 5, Church Lane,
Codes Used: A.B.C. (6th Ed.). Calcutta.
MESSRS. DICKON & CO., 17th July, 19 .

Bought of GHOSH & CO.,

General Merchants & Exporters.

Goods shipped per S.S. "Gondola" of P. & O. S. S. Line.
on 15th August, 19 .

INVOICE

No. 3/389.

INVOICE from GHOSH & Co.,

To R. C. Dutt, Esq.................................

for 7 (Seven) Cases tea............................

Shipped per S.S. "GOGRA" to Linga...........

Drawn @..

Calcutta, 6th September, 1938.

Mark.	Description.	Rs. A. P.	Rs. A. P.
H.A.G. 115 Linga.	7 Cases tea, each case containing 100 packets of 500 grammes each total 700 packets = 775 lbs. @ -/11/- per lb.	—	557 0 6
	Brokerage @ 1%		5 9 2
			562 9 8
	CHARGES		
	Packing, Marking & Shipping	29 12 0	
	Freight and Stamp	29 0 6	
	Insurance	5 11 0	
	Port Commissioners Charges ..	2 14 0	
	Commission 2%	11 4 0	
	Certificate of Origin	4 0 0	
			82 9 6
	(Rupees Six hundred forty-five, annas three and pies two only). TOTAL ...		645 3 2

E. & O. E.

Per Pro. GHOSH & Co.

Mark. G.O. Cases.	Nos.	Quantity.	Description.	Rate.	Rs.	As.	P.
2	50-51	20 Seers	2 Mirzaporee Carpets	Rs. 30/- each	60	..	..
1	72	5 Seers	5 Wooden		20	..	..
5	40-45	2 Mds.	Mangoes		80	..	..
1	26	1 Seer	2 Necklaces and 1 ring		340	..	..
					500		
Commission @ 5% ...		...	..		25		
					525		
Freight and Primage ...		...	...	..	15		
Cartage and Dock Charges		..	..	.	4	8	
Insurance for Rs. 500 ..		..		..	15	8	
					Total Rs. 560		

Drawn through the Mercantile Bank of India Ltd.

(Rupees Five hundred sixty only.)

INVOICE FROM BOSE & SONS, CALCUTTA

To............................

for............................

Shipped per S.S...............................

Drawn@...........................

Calcutta,....................19 .

Mark.	Description.						
	Total						

E. & O. E.

Bill No............negotiated with the.................

....

Freight..
Insurance covered by..........................
Bill of Lading
R/Receipt
No..............Dated.................
Letter of Credit No..............Dated...............

Bill of Exchange

After preparing the invoice, the exporter arranges to realise the amount of the invoice from the importer by drawing a bill of exchange for the same amount either upon the importer or his banker (if so arranged by a letter of credit). The bill of exchange is accepted and paid in due time by the drawee.

The exporter generally secures payment by drawing drafts on the importer in forms of bills, which may either be D/A or D/P bills, with both, however, all documents like bills of lading, insurance policy, invoice and other necessary documents attached. In case of D/A bills, documents entitling the discharge of goods, are deliverable to the importer on his accepting the draft, which conveys the order to pay for the goods according to the indent either to the exporter directly, or to his order. Under D/P bills, such documents are only given to the importer after payment is made either to the exporter, directly, or to his order. Generally, the exporter realises his payment through banks which undertake sending and presenting drafts along with other documents to relevant parties. Be it noted here that when bills are sent singly, unaccompanied by any other documents, they are known as clean bills. Drafts refer to documents which are payable not on presentation and acceptance, but they simply mention the period after which they become so.

Simultaneously, other documents like the Certificate of Origin, Consular Invoice, etc., which may be necessary for the export of goods in special cases will be prepared.

Foreign Buyer Informed

The foreign buyer will now be informed that the goods have been despatched, the name of the ship, the probable date of the arrival of the ship, etc.

Letter of Hypothecation

The exporter may, however, secure payment immediately after shipment of goods in his country by discounting the drafts with a bank, by endorsing the latter in favour of the bank. In such a case, the bank always gets a Letter of Hypothecation signed by the exporter. It is a letter addressed by the exporter to the bank giving all details of drafts. In case, any draft is not honoured by the prospective importer at the other end, then the bank is authorised by the Letter of Hypothecation to sell the goods, covered by such a draft, and if the sale price does not cover the full amount of bank's advance to the exporter, the Letter of Hypothecation provides beforehand for the payment of any such difference. It is generally the usual practice for banks to demand the Letter of Hypothecation and Letter of Credit before discounting documentary bills.

Presentation and Collection of Documentary Bills

If the documentary bill is discounted by the exporter, the discounting bank will then forward the documentary bill to its branch or agent situated in the country of import. On the receipt of the documentary bill, the branch or the agent informs the foreign buyer, and requests him either to accept or pay the bill according as it is either a D/A or a D/P bill. On either the acceptance or the payment of the bill, as the case may be, the relevant documents are handed over to the importer, who can then take the delivery of the goods. When the bill is payable after some time of its acceptance, it is presented to the drawee or his authorised agent for the payment of the bill on due date.

India's Sea-borne Trade

The excess of exports over imports is a very common feature of India's foreign trade. The bulk of exports from India consist of food-stuffs and raw materials, and the bulk of imports, of manufactured articles.

Questions

1. Give some account of the rise and growth of India's export trade in Jute and Jute manufactures and indicate the organisation of the jute export trade. (B. Com. Cal., 1929.)

2. You are an exporter of stationery, and have received an order from Melbourne for your stock line, value, say £1000. State the procedure you would follow in getting the goods to your customer in Melbourne. (B. Com. Cal., 1923.)

3. Make out an export Invoice (loco.) for the following goods, sold by Lucius Curties & Co., Manchester, to Monsieure Fonzes, Marcilles—8 cases 45 pcs., each 34" white shirtings (patt. No. 326) at 6s. 6d., per piece. Packing 6s. per case. Carriage to London and freight (through rate) at 22s. per steamer ton and 10% primage. Each case measures 3′ 2″ × 2′ 4″ × 1′ 11″. Marine Insurance F. P. A. 3s. 6d. for 10% over invoice value and charges, 4s. 9d. Shipped from London per s.s. 'Marsala'. (B. Com. Cal., 1923.)

4. Draft a D/P interest bill at 3 m% s. on H. C. Banerjee, Calcutta, for £250 12s. 9d., value hardware, shipped by S. Jones & Co., of London, on the 9th of March, 1924. Explain the object of this form of draft. Cannot this object be served in any other way? (B. Com., Cal., 1924.)

5. Describe the export procedure of goods from India.

6. What is a Bill of Lading? Describe its importance in Foreign Trade.

7. What is a Freight note? What do you mean by primage?

8. What is meant by the term "Trade Commissioner"? How are the commercial interests of India represented in countries where there are no Trade Commissioners for India? (B. Com. Cal., 1943.)

9. Write notes on the following :—

   (*a*) f.o.b, and c.i.f. prices.

   (*b*) Bonded Warehouse.

   (*c*) Negotiable Instrument. (B. Com., Cal., 1943.)

10. The export of merchandise is said to be undertaken by three different types of Commercial Houses, namely, (*a*) Manufacturers or Wholesale Merchants, (*b*) Commission Agents and (*c*) Packing and Forwarding Agents. Explain in brief the exact portion of work undertaken by each of them. (B. Com. Cal., 1944.)

CHAPTER XXI

IMPORT TRADE

Indent Business

The import trade of India may take either of two forms, namely the merchants in India may import foreign goods directly from the manufacturers, or they may do so through an intermediary. The latter is more popular in India, and this part of the import trade is known popularly as the *Indent Business.*

Many European and Indian firms are now carrying on this Indent Business. These Indent firms act as intermediaries in the Indian import trade between the Indian dealers and the foreign manufacturers. The local Indent firms obtain orders for foreign goods from the local dealers, send them to their foreign agents, who secure the goods from the manufacturers and import them to India. The profits of the Indent firms may consist of two elements, namely (*a*) ordinary commission allowed on the total price of the goods, and (*b*) the difference between the price paid by the dealer to the Indent firm and that at which the goods are bought from the foreign manufacturers. This latter element of profit is not possible in the case of foreign products which are well-known in the Indian market. The Indent firm may take the order from an Indian dealer at a very high price, and then buy the commodity at a lower price in the foreign market, and keep for itself the margin of the difference. Generally, the Indent firm reveals to the dealer only the country of origin of the goods, and other matters are kept secret.

In this Indent Business the usual procedure is for the Indentor to fill up the Indent Form, and send it on to the Indentee. If the prices of the Indentor are not acceptable by the Indentee, the Indentor is duly informed. In such a case prices may be ultimately agreed upon by mutual higgling and bargaining. After the receipt of the Indent, the Indentee is

allowed four weeks within which period he must inform whether he has accepted the Indent or not. Generally, six months' time is allowed to the Indentee to ship the commodities, and option is given to the Indentor to cancel the contract in case of any delay. The commodities are shipped at the risk of the Indentor, who pays the marine insurance premium for the goods. When the commodities arrive at the port of the Indentor, relevant documents are delivered to him on the acceptance, payment of the bill of exchange, or on making some arrangements thereof. If the payment is not made, the Indentor remains liable for any loss to the Indentee. When the goods are not found to be according to the Indent, the Indentor may make his claims within fourteen days of the receipt of the goods. Generally, any dispute between the Indentor and the Indentee is settled by means of arbitration.

The Indent firm may obtain the goods either through the manufacturers directly, some agents, or their own accredited representatives. If goods can be supplied at a lower price than that offered by the Indentor, the margin of difference is retained by the Indentee.

This system of Indent Trade is prevalent between the East and the West. It is true to say that a large amount of profits is usurped by the middlemen in form of the Indent firms, but there are some advantages also in this type of trade. The local Indian dealers have no knowledge of the foreign market, nor can they afford to keep agencies of their own in those countries. The Indent firms are specialists in this line of import trade ; they know the foreign markets ; they can buy profitably the right type of goods. They have generally got their own agents, who buy at the best possible prices after higgling and bargaining. The Indent firms generally arrange much more easily for the transhipment of goods into India. Generally, however, some dealers, especially the big ones, are now undertaking to import their goods directly from the foreign countries. A large amount of the Indent trade is also slipping away owing to the fact that several foreign manufacturers are now opening up their own branches or agencies here, and they usually under-

take to get their own commodities on behalf of the Indian dealers after due orders.

The Indent Business in India is generally financed by the exchange banks through bills of exchange. From the enclosed Indent Form, it will be evident that some of its clauses are unfavourably drafted against the interests of the Indian Indentors, and attempts are being made to remedy them.

Every kind of import trade, be it in the nature of direct import trade or Indent, has the same features of Customs procedure and other formalities.

INDENT FORM

Dear Sirs,

I/We hereby authorise you to buy or instruct your Agents to buy for my/our account and risk the whole or any part of the following goods on the terms and conditions as named below and we agree to pay you a buying commission of three per cent. for your service.

I/We hereby agree to take delivery of the goods on arrival direct from the Steamer and to pay all duties and charges incidental thereon and authorise you or your Agents to draw in sterling upon me/us for the total amount of the Invoice in a Bill or Bills of Exchange at London.

If the bill or bills be drawn in sterling I/We agree to pay interest on the amount thereof at six per cent. from the date of the relative Invoice to the estimated date of arrival of remittance in London and further bind myself/ourselves to accept such bill or bills on presentation without any pretext, excuse, objection whatever and pay the same at maturity. No interest is to be allowed to me/us on part-payment of such bill or bills. Should I/We fail to accept or to pay at maturity such bill or bills I/We hereby authorise you as well as the holders of the bills to dispose of the documents or goods either by Private Sale or Public Auction on my/our account and risk, and I/We hereby bind myself/ourselves to make good any loss arising from such sale and all Sale Expenses and in addition a commission of 5 per cent. for yourselves on the gross sale price

waiving all claims to any advantage thereon and I/We agree to accept your Account Sales as correct and consent to the same being used by you or your Agents in any Court or Courts against me/us without further proof.

Provided always that I/We hereby agree that in spite of anything that may be written on this contract or elsewhere to the contrary, you have the absolute right to refuse to give me/us possession of the Shipping Documents relating to this order or the goods until I/We have paid for the same as well as for all outstandings.

Should the goods for any reason be shipped in more than one shipment or for any reason a part or parts thereof be cancelled or left out I/We shall make no obejection to take them just as they may be shipped.

In case of any dispute, you or your Agents are to have the option of (*a*) cancelling this order, or of (*b*) submitting the matter in dispute to two Merchants or their Assistants or the Referee appointed by them, or of (*c*) submitting the matter to the . . . . Chamber of Commerce for arbitration under such rules as may at the time be in force, and I/We agree that the decision so arrived at shall be final and binding upon me/us.

Any claims or disputes whatsoever with respect to this order with regard to damage, shipment, deviation from samples, inferiority of quality or any other objections whatsoever are to be made in writing stating full particulars of complaint and the necessary arbitration fees deposited by me/us with you within 14 days from arrival of the goods, after which time all responsibility is to be on my/our account and no claim will be made by me/us after the aforesaid period of 14 days and if I/We make it, it shall not be valid.

When goods are ordered from specified manufacturers or manufacturers' agents I/We agree to take all risks connected with outturn both as to quality, delivery and in every other respect.

Any deviation from time limit not exceeding 15 days is not to be considered a breach of contract. All goods which have

been delivered up to time at Port of Shipment, shall be accepted as actually shipped within the limit of time stipulated and whatever your supplier writes in respect to this point is to be accepted as final.

In event of fire, or strikes among workmen, or of the failure of your supplier to deliver through bankruptcy or any other reason, you or your agents are to have the option of cancelling this order, and in no case shall any action be taken against you or your agents for loss of profit or otherwise owing to late shipment, non-shipment or non-arrival of the goods.

All risk of damage to oilman stores or any other foods of a perishable nature are to be borne by me/us.

Goods to be insured F. P. A. unless otherwise stated. I/We bear any loss which may arise in consequence of goods insured F. P. A. arriving late, water damaged, etc. Any war risk premium which may be incurred, to be in all cases payable by me/us.

You or your agents are not responsible for any leakage or breakage of any sort.

Description of goods indented..

Terms and Conditions..

Yours faithfully,

Import Procedure: Indent or Order

As in the case of the export trade, here also the importer at first sends the order to the foreign exporter. The prices quoted in the order by the importer may be either "open" or "firm". When the order of the importer is not accepted, it is usually settled afterwards by means of higgling and bargaining.

It should be remembered here that in bargaining in international trade, code languages are used in order to retain secrecy and avoid publicity.

In the import trade also as in the case of the export trade, the foreign exporter may demand a certain amount of deposit or even the full payment of the goods to be imported from the importer before shipment.

Letter of Credit

The importer will now arrange with his local bank for issuing a Letter of Credit in favour of the exporter, and this credit is generally confirmed and irrevocable.

Exchange

If the exporter draws a bill of exchange upon the importer against the consignment, in his own currency, the importer will do well to book in advance the rate of exchange. That is to say, the importer will arrange with a bank in advance that he must obtain the amount of foreign money to the extent of the bill in exchange of a certain fixed amount of domestic currency. He can also do so by buying forward exchange.

Bill of Exchange

After this the importer will be informed in due course by the exporter about the despatch of the goods, and the probable date of the arrival of the ship at the port of import by an advice note. In the meantime, the bill of exchange drawn by the importer upon the drawee against the consignment is sent to the importer generally through the exporter's banker situated in the country of import. The documentary bill is there presented by the bank to the importer either for acceptance or its payment according as the bill is a D/A or D/P bill. Then the relevant shipping documents attached to the bill are delivered to the importer in order to enable him to take the delivery of the goods.

Delivery

Now, the importer will arrange for the delivery of the goods after observing the various Customs formalities and procedures.

After obtaining the possession of the bill of lading, the importer endorses it and forwards it to his agent in order to clear the goods from the port of arrival and hands them over to him. He may also clear the goods directly through his own staff by issuing necessary instructions. In any case, freight and other charges must be paid, and certain Customs formalities observed before the clearance of the goods.

The Jetty Sircar generally goes to the importer's office with the *Bill of Entry*, original and duplicate, which must be filled up for the payment of import duty, if there be any such duty. The Bill of Entry is filled up from the invoice, Bill of Lading, and other necessary documents. In it must be entered not only the value of the goods as shown in the invoice, but also the market value of the goods where the duty is leviable *ad valorem*, that is to say, the duty is payable according to value, and the market value is always taken as the basis. If the market value is not available, the invoice value is accepted. Where the duty is payable according to quantity, it is much more an easier process. In order to verify the correctness of the market value as given in the Bill of Entry by the Jetty Sircar, the Appraiser of the Customs House has got several brokers working under him for the purpose.

Two sets of the Bill of Entry, original and duplicate, can be purchased from the Stamp Vendor for one anna at the Customs House. An importer can also print his own Bill of Entry. The "Bill of Entry for Consumption" is the same as the Bill of Entry or the Customs Challan. It is a certificate filled up by the importer stating the nature, quantity, price, etc., of the goods imported and delivered to the Customs authorities. It also states the place from which the goods have been imported. No delivery of goods can be obtained from the Customs unless this Bill of Entry is signed by the Collector of Customs.

Customs Formalities

Now we shall describe in greater details the Customs formalities. The Bill of Lading must be endorsed by the importer and sent to the agent of the steamship company for the delivery of the goods, and on it must be noted the Line Number, if it is not there already. It must also be noted on the Bill of Entry. Then the Jetty Sircar puts down the Rotation Number on the Bill of Entry. Then he passes the Bill of Entry on to the Noter of the department who scrutinises whether the goods concerned are mentioned in the Import Manifest. The Noter then

marks the bill as "noted" under his signature and returns the bill to the Jetty Sircar. If the goods are free, and not dutiable, the noter then passes the bill on to the Free Register Writer who enters it in the proper books. The Register Writer asks for the duplicate, passes the Bill on to the Pass Examiner who examines it, and puts the stamp "Appraise and Pass" in black ink on the duplicate which is then returned to the importer.

In case of dutiable goods, the Bill of Entry is then taken along with the shipment sample, the invoice, etc., to the Appraiser, who values the goods. He classifies the goods, and examines whether the correct market value has been declared. If not, he then returns the Bill for correction. He can detain the goods in such a case. Afterwards he puts down on the Bill the rate of duty payable, and issues orders to the Jetty Examining Officer to open the packages for appraisement. Then the Jetty Sircar notes on the Bill the full amount of the duty to be paid, and takes it to the Calculator who checks it up.

The Bill or the Challan is then registered in the General Register of Receipts in the Accounts Department, which puts the account number on it, and the Challan is signed by the Assistant Accountant-in-charge. Then it is presented to the Cash Department along with the Customs Receipt form duly filled up by the Jetty Sircar, and this Receipt form is available from the Stamp Vendor at the rate of one pice for two. Then the amount of the duty is paid to the Assistant Cashier who issues a Kutcha receipt. Afterwards, the Cash Register Clerk enters the particulars of the Bill in the Cash Register Book, and notes the Cash Number on the Bill. Then the Customs Receipt and the Bill are returned.

Then the original Bill along with the duplicate is sent to the Import Department for entry in the proper register, and the Import Superviser examines the documents carefully. He in turn passes them on to the Pass Examiner who after due examination puts in red ink the stamp "Appraise and Pass" on the duplicate. Now, the Bill and its duplicate are signed by the Assistant Collector. The duplicate bill is termed from this stage, the "Customs Pass" or simply the "Pass". It is then

sent to the Jetty Sircar. The goods are then appraised in the Jetty by the Appraiser who marks on the duplicate "Appraised in Full", and the Pass is returned to the Jetty Sircar.

Then the Jetty Sircar must pay the Jetty and other charges to the Port Commissioners with the Import Delivery Challan or the Jetty Challan as it is called, duly filled up. It is available from the Stamp Vendor for an anna. Now, the Jetty Challan is filed with the Calculator in the Jetty Office along with the Customs Pass. A cash receipt is obtained from the Cashier on payment of the landing charges.

Now, the Customs Pass, the Jetty Challan, the Bill of Lading and the Invoice are filed for registration with the Foreman of the Shed, where the ship is lying, and this place of the shed is indicated by a sign board showing "Challan Accepted and Registered here". The Foreman puts the landing dates and the number A, B or C of the delivery section on the Jetty Challan in order to send it to that particular section after its registration in the original Import Manifest. The Foreman sends back the Challan and other necessary documents to the Customs Appraiser and Examining Officer who stamps the Jetty Challan with "Passed out Customs Control in Full" after due examination. Afterwards, the Delivery Order form obtainable free from the Foreman of the shed is filled up by the Jetty Sircar. Now the Customs Pass and the Delivery Order are sent to Officer-in-charge of the delivery section ; he signs the Delivery Order and grants a Gate Pass containing the name of the consignee, description and marks of the goods, and the name of the gate through which the goods are to pass. If the goods lie in the jetty for more than three days, demurrages must be paid.

Afterwards the commodities are given delivery to the importer or his representative who is generally the Jetty Sircar, in exchange of the Delivery Order. The receipt of the goods is acknowledged on the Bill of Lading. When the goods are loaded into carts, a Cart Ticket must be filled up and submitted to the Delivery Clerk for the examination of the goods. Then the Gate Pass and the Cart Ticket are given to the Gate Officer,

who allows the goods to pass through the gate of the Jetty in carts after careful scrutiny.

Ship's Report

When goods arrive at any port from a foreign country, the first thing is for the master of the ship to give report to the local customs authorities within twentyfour hours of its arrival. This is called a Ship's Report, and should contain full information regarding the port of registration and nationality, the last port it touched, names and description of master, crew, passengers and cargo, including dutiable goods belonging to the master. Any misinformation entails punishment on the master of the vessel. Nothing can be unloaded from the ship before this Report is submitted.

The goods may be discharged from the customs authorties after paying duties, if there be any, and fulfilling other necessary procedures and methods.

The report must be submitted in the prescribed form. The Master of the vessel is required to submit an exhaustive list of all dutiable goods including those belonging to the crew. Any commodity which is not so declared may be detained or seized.

Entrepot Trade

Entrepot trade may be called a type of import trade, and refers to that kind of import trade where a country imports goods not to retain and consume them within itself, but with a view to their re-export to some other country. Thus, for example, England imports a large quantum of jute from India in order to re-export the same to the Continent. *Entrepot* trade is found when there is no direct trade intercourse between the primary exporting and final consuming countries. It may arise owing to the absence of banking facilities. The *entrepot* trade tends to enable some countries to obtain their imports indirectly through other countries instead of importing goods directly from the primary exporting countries. This may be due to the fact that such direct trade relations do not exist, because trade between them may not be sufficiently large to justify the setting

For Custom House orders only.

ORIGINAL
Bill of Entry for Consumption

Vessel	Master or Agents	Colours	Port of Shipment	Country whence consigned	Importer's Name	Bahadur & Co.

Packages		Quantity		Description	Real Value as per Sea Customs Act		Value on which duty is assessed			Duty	
Number and Description	Marks and Numbers	Unit	Amount	Details to be given separately for each class	Rate	Amount	Tariff rate	Ad Val rate	Amount	Rate	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)

For Custom House Stamps only.

1. I/We hereby declare the particulars given to be true.
2. This bill of entry is presented under and subject to Collector's notice dated . . . . and for the purpose of Section 37 Sea Customs Act, it is expressly agreed that it shall be deemed to be delivered on the date on which the order for inward entry is passed and this bill of entry in fact be so deemed to be delivered.
3. "It is hereby declared that the acceptance of a deposit of duty calculated on the declared value and description of the goods specified in this bill of entry before examination and assessment shall be deemed to imply acceptance by Government of such declared value and description or to affect the rights of Government under sections 31 and 32 of the Sea Customs Act until the Appraising Department shall have finally accepted such declared value and description.

Dated . . . .
Calcutta,

Stamp Vendor
Custom House.

Signature of Importer
or his Authorised Agent.

up of trading agents, or sufficient tonnage of shipping may not be available between them. England, Shanghai and Colombo are good examples of *entrepot* trade centres.

Questions

1. Make out in proper form and style a foreign invoice for the following: Leeds 15th May, 1924......shipped by N. Sutherland & Co., (H. H. & Co.) to Abdul Hossain & Co., Calcutta, 5 cases numbered 98 to 102, each, containing 24 pieces 48" coloured Vicunas, each 48 yds., at 7¾d. Deduct 1½ per cent. discount 4×2/4×2×4 each case. 4 c.w.t. per case. Packing 12s. 6d. each case m/n 9d. per piece. Fire Insurance, ½ per cent on £200. Cart to Dirkenhead, 15s. per ton weight. Dues at 6d. per case. Ft. 35s. per ton meast, and 10 per cent primage. Marine insurance on £220 at 6s. 8d. f.p.a. and stamp. (B. Com. Cal., 1924.)
2. Show the price per yd. of the goods forming the above invoice (*a*) c.i.f. Calcutta, and (*b*) f.o.b. Birkenhead. (B. Com. Cal., 1924.)
3. What is meant by indent business? How is it carried on? What is meant by Documentary Bill and what is its utility in indent business? (B. Com. Cal., 1926.)
4. Explain how 'indent business' is carried on in India. What do you mean by 'firm offer' and 'open prices'? (B. Com. Cal., 1934.)
5. What is meant by Indent Business? Explain its utility to the Indian dealer. (B. Com. Cal., 1939.)
6. What is a Ship's Report? Explain four of the chief points with regard to a Ship's Report. (B. Com. Cal., 1939.)
7. Buyers :—Oriental Motor Car Co., Lucknow.
   Sellers :—London Exchange Co., London.

   The buyers order a shipment of motor parts to be sent via Calcutta through Grindlay & Co., Agents, Calcutta, and Thomas Cook & Son, Agents, London.

   (*a*) Follow the transactions from buyer to seller and back to buyer, explaining what steps are taken and what documents are issued. The goods are insured and dutiable.

   (*b*) Make out the following documents :—Indent, Freight Note, Bill of Lading, Invoice, Bill of Exchange to the order of Allahabad Bank, Lucknow. (B. Com. Lucknow, 1923.)
8. William sends a consignment of cotton-goods to J. Ghosh, Calcutta, marked J. G. and consisting of six styles of cotton cloth. He

arranges to ship the goods, and in his invoice charges cost of packing, insurance and freight. You are required to :—

(*a*) Prepare an invoice with all details.

(*b*) Estimate the cost of packing in four cases $2' \times 3' \times 4''$ at 4d. per c. ft.

(*c*) Estimate the freight at 40s. a ton and primage.

(*d*) Estimate the cost of insurance at Rs. 8/-%.

(B. Com. Lucknow, 1924.)

9. Explain the following :—Certificate of origin, drawback, debenture, crossed cheque, del credere. (B. Com. Lucknow, 1924.)

10. What is Indent Business? How is it conducted and financed? Why are two sets of middlemen required to be necessary in this kind of work? (B. Com. Bombay, 1926.)

CHAPTER XXII

TERMS AND DOCUMENTS USED IN TRADE

Noting

It means the recording of all the goods which are exported in the Customs Register, whether the goods are dutiable or otherwise. The Customs Challan is made out regarding non-dutiable goods ; it is then noted at the Customs House, and the permission to export is given afterwards.

Import Manifest

The Manifest means the list or the invoice of all the commodities on board the vessel. The Import Manifest denotes a document which contains a list of all the commodities imported in a vessel including stores, and any other information which may be required by the Collector of Customs. It is the practice at the Calcutta Customs that every ship which arrives at the Calcutta port must submit to the authorised Officer of the Customs an Import Manifest in duplicate within twenty-four hours of her arrival. This is required for the entry of every vessel. Similarly, an Export Manifest must be submitted in duplicate by the Master of the vessel or his agent to the authorised Customs Officer at least twentyfour hours before the departure of the vessel. It generally contains all particulars regarding the cargo, crew, vessel, destination of the vessel, etc. It is required for port-clearance of any vessel.

Documentary Bill

A Documentary Bill refers to a Bill of Exchange accompanied by other documents like a bill of lading, a delivery order, an insurance policy, an invoice, shipping documents, etc. The bill of exchange is drawn to realise payment of commodities exported to a foreign country by the drawer (exporter) upon the drawee (importer). The commodities which are imported cannot be taken delivery of by the importer without the production

of the bill of lading and other documents. The general practice is for the exporter to draw the bill of exchange, attach to it the bill of lading, invoice, delivery order, etc., and send it on to his banker or agent stationed in the country of import. On its receipt, the bank informs the importer and requests him to pay or accept the bill of exchange according as it is either a D/P or a D/A bill. Then the relevant documents are delivered to the importer for the clearance of the goods. If the drawee refuses either to pay or accept the bill of exchange, the relevant documents including the bill of lading are given to the exporter's agent, who disposes of the goods. Or the goods may be arranged to be disposed of by the bank of the exporter under the Letter of Hypothecation given to the bank.

Documentary bills are usually drawn in a set of three. They are sent in different mails even at different times, so that if any set is lost or misdelivered, one or the other set is sure to reach in time the importer in order to enable him to take delivery of the goods.

Price Quotations

Delivery Docks is a quotation. It refers to prices which include all charges of unloading and delivery to the Docks in case of commodities meant for export.

F. A. S. Or. Free Alongside Ship means that the commodities are delivered free of charges alongside the ship, but extra charges are made on putting them on board the vessel.

F. O. B. Or. Free On Board includes the costs of loading the commodities on board the ship.

C. & F. Or. Cost and Freight means that the seller bears the freight, and hence the place of import should be stated, e.g., C. & F., Calcutta.

C. I. F. Or. Cost, Freight and Insurance includes both freight as well as insurance, because goods are usually insured against maritime risks. In this C. I. F. quotation also, the port of import must be mentioned.

C. I. F. I. Or. Cost, Insurance, Freight and Interest includes Interest on the value of the shipment in addition to cost,

Insurance and Freight. This kind of price is rarely quoted, and when so quoted it is usually done so by an agent, who undertakes to export on behalf of an importer. In such cases, sometimes the commission of the agent is included in the price thus "C. I. F. I. C. or Cost, Insurance, Freight, Interest and Commissions".

C. I. F. & E. Or. Cost, Insurance, Freight and Exchange means that the price quotation also includes the risk of exchange fluctuations.

Ex Ship price quotation means that the seller will bear all costs of putting the cargo on the ship.

Landed denotes that the exporter pays all expenses up to the discharge of the goods on land at the port of import.

In Bond denotes that the goods will be delivered by the seller at the Bonded Warehouse of the Customs at the port of import. In such an instance, the seller prepares the necessary Customs Entry for the articles, and obtains the Warehouse Warrant.

Franco, Rendu or Free means that all expenses up to delivering the goods in the Warehouse of the buyer are included in the price. When *Duty Paid* is mentioned, it includes the import duty.

Terms of Payment

C. W. O. or Cost With Order means that the price must be paid with the order. *C. O. D. Or. Cash On Delivery* means that the cash must be paid on the delivery of the goods. In foreign trade, the exporter sends the shipping documents for the clearance of the goods to its bank in the importing country. The bank collects the payment of the price on the presentation of the documents.

Remittance Terms

Generally the importers of this country always prefer to pay the British exporters by means of *Remittance*. They usually remit when exchanges are favourable for them, though they undertake to pay the interest on any unpaid balance. This

advantage of Remittance Terms is only allowed to importers, who possess sufficient credit and reputation.

Draft Terms generally include all the conditions of sale, namely, the drawing of the draft by the exporter upon the importer, whether the draft is a D/A or a D/P bill, and so on.

Letters of Credit

An unknown importer may want to import goods, but the exporter will not be prepared to send the goods on to the importer except on cash payment. The importer may, however, import on the basis of credit through the medium of a Letter of Credit. It tends to create credit between two unknown people, and expands thereby the scope of international trade.

A Letter of Credit generally consists of an undertaking by a banker that bills drawn upon the banker by the exporter according to the terms of the Letter of Credit will be duly honoured. The importer usually requests his banker to issue a Letter of Credit in favour of the exporter, and the bank undertakes to honour all bills drawn by the exporter according to the terms of the Credit. The Letter of Credit may also entitle the exporter to draw the bill upon the bank itself, and the latter agrees to accept and honour the bill. The exporter is thus able to discount the bill as a first class security on the strength of the issuing bank's undertaking.

Kinds of Credit – 3 kinds of credit

In case of a (i) *Confirmed or Irrevocable Credit*, the issuing banker gives an undertaking to accept and pay bills drawn upon him according to the terms of the Credit. Some would like to apply the term 'Confirmed Credit' only when the bank through whom the Credit is advised to the beneficiary sends its confirmation to the issuing banker.

It becomes a case of an (ii) *Unconfirmed Credit*, when the issuing banker gives no undertaking like the above, but it simply agrees to honour drafts drawn under the terms of the Credit provided the Credit is not cancelled in the meantime.

Generally, however, the issuing banker honours all drafts which are negotiated by any bank provided the latter negotiates the drafts before the receipt of the notice of cancellation.

(3) A *Documentary Credit* provides for bills which must be accompanied by shipping documents. (4) A *Clean Credit* provides for drafts where no documents are necessary to be attached to bills.

(5) An *Acceptance Credit* provides for bills which require acceptances as distinct from Sight Drafts. In Acceptance Credits, it is the usual practice for a bank issuing the Credit to undertake to accept the bill on behalf of the importer. It is called a Negotiation Credit, when the issuing bank undertakes merely to negotiate drafts. Acceptance Credits usually contain the name of the place, where the drafts are to be accepted *e.g.,* Calcutta Acceptance Credit.

(6) A *Fixed Credit* enables the drawer to draw drafts for a fixed total amount either in one bill or in several bills.

(7) In case of an *Omnibus Credit,* the shippers are allowed to draw round sums on a bank against the security of their goods.

(8) A *Revolving Credit* means a Credit which is automatically renewed from time to time on the fulfilment of certain stipulated conditions. A Revolving Credit may take four forms: (*a*) It may be available for a *fixed sum in one draft* at any one time, with the condition of being automatically renewed again. (*b*) The Credit may be available for a *fixed amount in one draft* at any one time with the condition that the Credit may be available only, provided an intimation is given that the previous draft has been paid. (*c*) It provides for an unlimited amount in one or several drafts with a limit being given on the total of bills outstanding at any one time. (*d*) It is available for a limited amount during a specified period.

(9) *A Negotiation Credit or Authority to Negotiate* is found when a bank in the importer's country requests its agent or branch in the exporter's country to negotiate bills drawn by the exporter upon the importer up to a certain specified amount during a certain period. Though there is no guarantee, the

issuing bank is presumed to guarantee to honour any such drafts on presentation provided that they were negotiated prior to the cancellation of the Credit.

CREDIT FORM

THE . . . . BANK LIMITED

L/A 31/40

MESSRS. GHOSH & SON,
Court Buildings, Grosvenor House, Calcutta.
An Irrevocable Credit.

Dear Sirs,

We beg to inform you that in accordance with advices received by letter from Banque Mellie, through our Bombay Office an Irrevocable Credit has been opened in your favour by them and..for account of Bose for a sum not exceeding Rs. 15,302/- (Rupees fifteen thousand three hundred and two only).....................in all, available by delivery to us on or before the 20th April, 1940..................of the following documents evidencing a shipment 160 Chests Tea produce of Calcutta, shipped from Calcutta to Bushire C. I. F. Partial shipment not allowed....................

....

....

....

1. Bills of Exchange in duplicate payable at sight......... Bose.......................and marked "drawn under Banque Mellie, Irrevocable Credit No. 20........... dated December 16th 1939.
2. Detailed invoices...............................in triplicate signed by you certifying that same are correct.
3. Clean "one board" Bills of Lading in complete sets of two signed copies at least made out "to order," endorsed in blank... and marked by the Steamship Company "freight paid."

4. Policies for 110 per cent. of the invoice value covering marine and war risks taken out with approved Under-writers and endorsed in blank. (Please note that Certificates of Insurance will not be accepted).
5. Certificate Origin in triplicate..............................
6. ....
....

We have pleasure in stating that we are prepared in our option as customary to negotiate drafts drawn in terms of the arrangement provided that the documents as above mentioned appear to us to be in order.

When presenting drafts for negotiation under this Credit it is imperative that this letter be produced to enable us to mark off on the back thereof the amounts of drafts drawn thereunder.

Kindly note that this advice is given for guidance and without involving any responsibility on the part of this Bank.

Yours faithfully,

Manager.

Non-Commercial Credits

We have already discussed in previous paragraphs the commercial credits which assist the growth of international trade. There is another type of credit, which enables travellers to carry money safely during their travels over several countries.

A Traveller's Letter of Credit denotes a request by the issuing bank to its branch or agent abroad to give cash on demand against drafts drawn by the holder upon the issuing bank up to a specified amount during a certain period. A Traveller's Letter of Credit may be of three types: (*a*) *Circular* or *World-wide Letters of Credit* are available with any of the branches or agents of the issuing bank. (*b*) *Limited Letters of Credit* are meant to give cash only at certain of the bank's agents or branches. (*c*) *Traveller's Commercial Letters of Credit* are issued in order to enable the holders to buy goods at certain places, and these are generally accompanied by relevant shipping documents.

A *Letter of Indication* containing the specimen signature of the traveller is generally given to him by the issuing banks, and this he must produce to the bank's agent or branch abroad at the time of encashing the draft for the purpose of establishing his identity.

Traveller's Cheques mean drafts drawn by a holder upon the issuing bank encashable by its agent or correspondent abroad. These cheques are signed by the holder in presence of the issuing bank, and must again be endorsed at the time of being encashed so that identity may be easily established.

Circular Notes are similar to Traveller's Cheques and contain on the front a request to the bank's agent or correspondent abroad to give cash of a certain amount to the holder. On the back is enclosed a cheque, which is drawn by the holder upon the issuing bank.

Circular Cheques are issued by a bank to its agent or correspondent abroad, and are sold by the latter to people who propose to visit the country of the issuing bank. These are in form of cheques drawn upon the issuing bank by its agent or correspondent, who fills in the amount of the cheques at the time of their sale.

Trust Receipts

Generally an importer may take an advance from a bank against shipping documents giving a title to the consignment of goods. He may also finance his shipments through a credit opened with a bank against the pledge of shipping documents of title to the goods. In either case it is necessary for the importer to obtain the documents pledged with a bank in order to take delivery of the goods before paying the amount due to the bank but the bank cannot also dispense with the documents which serve as securities. Hence a compromise is reached by means of a Trust Letter or Receipt which is signed by the importer. Afterwards, the documents are released by the bank. The characteristics of a Trust Letter or Receipt are usually the following: (a) It serves as an acknowledgment of the receipt of the documents, and the customer undertakes to keep the

goods in trust on behalf of the bank. (*b*) It is an undertaking by the customer to store the goods in proper order at his own expense, and keep them separate from other goods. He agrees to utilise any proceeds from such goods first in settlement of the indebtedness of the bank. (*c*) The customer agrees to cover the goods fully by means of an insurance policy against all contingencies, and the policy must be delivered to the bank. (*d*) The customer also agrees by this document that the bank shall be entitled to resume the possession of the goods at any time and annul the receipt. (*e*) It is further agreed that no breach of any of the provisions will constitute waiver by the bank of any of its rights under the Trust Letter or Receipt.

Charter Party

It is always possible to hire a ship or a part of it for the shipment of cargoes. In so hiring, an agreement is to be made by the hirer with the ship-owner, and such an agreement is called a Charter Party. It is, generally, of two kinds, namely *Voyage* and *Time Charters*. Voyage Charter refers to an agreement hiring a ship or a part of it for a specified voyage only and when a ship or a part of it is let for a stated period, it is called a Time Charter.

In a charter party, the ship-owner, usually undertakes to see that the ship is in a seaworthy condition, and readily available according to terms of the agreement. The hirer also agrees to put a certain specified quantum of cargo, on which an agreed freight to be paid is settled in the charter party. It also provides for a few days, technically known as *Lay Days*, to be allowed to a charterer for loading and unloading his cargoes. *Demurrage* is usually charged for any excess days over Lay Days, whilst if all Lay Days are not utilised, the shipowner pays a refund at a certain agreed rate to the charterer for the days thus saved, and the money so paid is known as *Despatch Money*.

It is also the usual practice to mention in the charter party the port or destination of goods if already known to the charterer, but where only specific cargo is mentioned, no other commodity may be shipped. Hence, it is more often than not,

that a charter party refers to cargo merely as "lawful merchandise."

A charter party should contain broadly speaking the following clauses:—(*a*) names of parties, (*b*) class of charter party, (*c*) stating the place where the ship is, (*d*) representation by the shipowner as to fitness of the ship, (*e*) prosecution of the voyage, (*f*) master's duty, (*g*) charterer's duty to provide for cargo and payment of freight, (*h*) excepted perils, (*i*) lay days, (*j*) provision for loading, discharge, demurrage, cancellation and penalty.

Fitness of the ship to undertake the voyage is impliedly warranted by the shipowner. Implied warranties extend only to (*a*) seaworthiness at the time of sailing and (*b*) fitness at the time of loading. When the voyage is divided into stages, it must be seaworthy at each stage of the voyage.

Form of Charter Party

Though the actual particulars of a charter party differ according to the practices of the port where it is made out and to the nature of the voyage, certain essential clauses are found in every charter party.

A common form of such an agreement is given below: "Calcutta, the 14th July, 1930. It is this day mutually agreed between Messrs................................., owner or agents for owners of good steamship or vessel called the.................of ....cwt. net register, now trading at.............., and Messrs.., merchants, the charterers. That the said ship being tight, staunch and strong and in every way fitted for the voyage shall with all convenient speed proceed to..................and there load in the usual and customary manner a full and complete cargo of lawful merchandise about ....cwt. in weight and therewith proceed to.............. as ordered before sailing or so near thereto as she may safely get and there deliver the cargo in the usual manner agreeably to bills of lading or being paid freight at the rate..............., the steamer paying all port or other customary dues or charges. The cargo shall be put on board and taken from the steamer's

tackle at freighter's risk and expense. The steamer is to be loaded at the rate of not less than.................tons per weather working day (Sundays and holidays excepted) and to be discharged at the average rate of not less than..............cwt. per like days (Sundays and holidays excepted) charterers to be at liberty to average days for loading and discharging to avoid demurrage and steamer to load if required on Sundays and holidays but in such case time used to count. The freighters shall have the option of keeping the steamer on demurrage at the rate..............per cwt. per running day on the total quantity of cargo delivered, but in no case less than..............per day. Lay days to count from steamer's arrival has been reported and is in every way ready to load and deliver as customary and written notice thereof has been duly delivered to the consignees or freighters if the loading or discharging on the conveyance of the cargo from the mines to the vessel be prevented by bad weather, floods, frosts, rebellion, tumult, riots, war, epidemics, civil commotion, political disturbances, lockouts, strikes or stoppage of workmen or any other cause beyond the control of the charterers, time shall not count nor demurrage accrue. Freighters shall not be responsible for any loss of time owing to the inability of the steamer to take on board or discharge within the stipulated time. Masters to sign bills of lading at any rate of freight required by freighters but not less than chartered rate. Charterers have the option of cancelling the charter, if the steamer be not in loading port, ready to load within 21 days from the date of this charter. Charterer's liability shall cease on completion of loading, owner having lien on cargo for freight, dead freight and demurrage. The Act of God, king's enemies, quarantine, fire on board etc., barratry of the master and crew, enemies, pirates, robbers, accident to boilers, machinery, collision, stranding, jettison or from any act, neglect, default or error in judgment of the pilot etc., other dangers and accidents of the seas, rivers and canals of any kind before and during the said voyage always excepted and steamer is not answerable for any loss through explosion of boilers, breakage of shaft or any latent defect in the machinery not

resulting from want of due diligence by the owners. Steamer has liberty to call at any port to bunker or receive and deliver part cargo or to deviate for the purpose of saving life or property etc., salvage and towage for owner's sole benefit. In case of average the same to be settled in accordance with York-Antwerp Rules. Any time lost at discharging port owing to scarcity of wagons or labourers is to be computed as lay days."

Salvage

It is a reward to persons saving or rendering assistance in saving a ship and her cargo. The salvor can claim reward if the services are rendered voluntarily, if skill and enterprise are shown in the work and if the services are beneficial. The salvor has a maritime lien extending to the ship, her cargo and upon the property saved. The cargo-owners are liable for salvage in proportion to its value rateably with the other property salved.

This kind of expenditure is not a general average loss, but it becomes so when both the ship and the cargo are salved.

Excepted Perils

This clause is found both in a charter party as well as in a bill of lading, and is meant to exonerate the shipowner from liability for loss occasioned by certain perils beyond human control, and not due to the negligence of the shipowner.

If these excepted perils happen in a bill of lading, they apply only to the voyage, loading and discharging, and its benefit is one-sided in favour of the shipowner, while if they occur in a charter party they apply to the preliminary voyage, the voyage to the destination, loading and discharging and work to the benefit of both the parties.

The excepted perils clause includes among others the following important clauses:

(*i*) Act of God:—Accidents caused by forces of nature beyond human control and which no human agency could avoid by a reasonable foresight.

(*ii*) King's enemies, restraints of princes and rules:—Enemies refer to the enemies of the state to which the carrier is subject. Restraint of princes means any restriction imposed by any sovereign authority through whose jurisdiction the ship is to pass—such as blockades and embargoes.

(*iii*) Pirates, robbers or thieves.

(*iv*) Strikes and lockouts mean the stoppage of work owing to trade disputes.

(*v*) Barratry means deliberate wrongful acts done by the master or crew against the ship or the cargo, *e.g.*, when the master fraudulently sells the cargo or deviates.

(*vi*) Jettison:—It does not include a case in which jettison took place owing to improper stowage amounting to negligence.

(*vii*) Collision:—It is also included within "Perils of the Sea" when it is not caused by negligence.

(*viii*) All perils, dangers and accidents of the sea:—These include dangers, etc., which are peculiar and incidental to a sea voyage. These are such "which could not be foreseen and guarded against by the shipowner or his servants as necessary or probable incidents of the adventure".

A master being the servant of the shipowner must act in the interest of the cargo owners specially in emergencies. He must obtain the clearance certificate before the commencement of the voyage after the loading of the cargo and he is generally authorised to sign bills of lading.

The shipowner has a lien on the cargoes carried by a ship until he has received payment of freight due. It ceases after the delivery of the goods. There is no lien for dead freight in the absence of any agreement or usage.

Causa Proxima

In a damage or loss due to several causes, the exemption clause will operate only so far as its proximate cause is concerned. When an excepted peril becomes a remote cause, the shipowner is not excused on account of it.

Bottomry and Respondentia Bonds

When a ship starts on her voyage, she may encounter accidents, causing damage to the ship and requiring repairs to be made before she can be ready to sail for her destination. In order to enable the captain of the vessel to obtain money on the voyage to carry out such repairs, several legal methods are available to him. The captain can draw a draft on owners of a vessel ; he can raise money on the security of a vessel, freight and cargo. Since the costs of such repairs are really to be met by owners of a vessel the securities that a captain can pledge come in order of priority of proprietory rights of owner of a vessel. Hence, the captain of the vessel will, first, raise money by mortgaging the vessel, and the deed executing the necessary mortgage is known as a Bottomry Bond. If sufficient funds are not available thereby, the captain will then raise additional funds by mortgaging freight and cargo. When the mortgage bond includes freight and cargo in addition to the vessel, it is technically known as a Respondentia Bond, though however, bottomry bond is now used to include mortgaging the above three items. When freight is mortgaged, it refers to freight which remains unpaid, and is due to be paid at the port of destination, and as such is a valuable mortgagable property.

Under both these bonds, money which is raised is due to be repaid at the destination of the vessel, and no money is to be repaid, if the vessel does not reach its destination and is lost.

It is also, further, provided in case of those bonds, that if any second such bonds are required to raise additional funds before voyage is completed, the latter bonds will have priority of claims to payment over the first ones. That is to say, priority is always given to the last executed bond over the previous ones, in ascending order.

Consular Invoice

Export and import trade procedures of different countries tend to vary, and any merchant before undertaking to do any trade with a country should ascertain beforehand the various

methods and documents required by the latter in order to avoid troubles.

It is now the general practice of almost all countries to insist upon the production of a consular invoice amongst other documents against the shipment of goods into any country before such imports can be discharged by the customs authorities of the importing country concerned. A consular invoice refers to one which is certified by the consul of an importing country stationed in the exporting country. Generally before any commodity is shipped to a country, the exporter prepares an invoice containing its F. O. B. price including all shipping charges, and submits the same to the consul of the importing country stationed in the exporting country who certifies as to the correctness of such an invoice. This certified invoice known as a *Consular Invoice* is then sent to the importer who produces it to the customs authorities concerned. It helps the latter to impose the requisite duty if there be any, because the information given in the consular invoice is generally accepted as a genuine guide.

Consul ✓

A consul is a person appointed by a Government to reside in a foreign country where he tries to defend and extend the commercial and trade interests of the country which he represents. He has no diplomatic status and unlike an ambassador he enjoys no diplomatic privileges and immunities. His function partakes more of the nature of giving private advice and assistance, and of making due representations when required. The various Trade Commissioners appointed by the Government of India in several foreign countries are acting more or less as consuls.

Certificate of Origin

A certificate of Origin denotes a declaration made by an exporter, testifying to the origin of the goods exported and certified by an authority deputed for the purpose by the importing country.

REQUIRED CONTENTS OF THIS INVOICE

(1) The port of entry to which the merchandise is destined.

(2) The time when, the place where, the person by whom, and the person to whom the merchandise is sold or agreed to be sold.

(3) A detailed description of the merchandise, including the name by which each item is known, the grade or quality, and the marks, numbers, or symbols under which sold by the seller or manufacturer to the trade in the country of exportation, together with the marks and numbers of the packages in which the merchandise is packed.

(4) The quantities in the weights and measures of the country or place from which the merchandise is shipped, or the weights and measures of the United States.

(5) The purchase price of each item in the currency of the purchase.

(6) The kind of currency, whether gold, silver, or paper.

(7) All charges upon the merchandise, itemized by name and amount when known to the seller or shipper, or all charges by name (including commissions, insurance, freight, cases, containers, coverings, and cost of packing) included in the invoice prices when the amounts of such charges are unknown to the seller or shipper.

(8) All rebates, drawbacks, and bounties, separately itemized, allowed upon the exportation of the merchandise.

INSTRUCTIONS ISSUED BY THE SECRETARY OF THE TREASURY RELATIVE TO THE REQUIRED CONTENTS OF INVOICES

When special form of invoice is required by the . . . customs authorities, and when the required information cannot be given on the face of this invoice form, it should be attached to and be in lieu of the printed invoice form.

PURCHASE MERCHANDISE

Invoice No. ______

Issued in { TRIPLICATE / QUADRUPLICATE

Certified ______
(Date)

CONSULAR SERVICE
AT

Date ______

Seller ______

Purchaser ______

Carrier ______
(Vessel or railroad)

Port of shipment ______

Destination of goods ______

Port of arrival ______

Port of entry ______

Amount of invoice ______

Kind of goods ______

Form 138
(Corrected May 1924)

DECLARATION OF SELLER OR SHIPPER, OR THE AGENT OF EITHER, WHEN MERCHANDISE IS SHIPPED IN PURSUANCE OF A PURCHASE OR AN AGREEMENT TO PURCHASE.

I, We, } ______ acting in the capacity described below, truly declare that ______ of ______ is / are } the { seller / sellers } or { shipper / shippers } of the merchandise described in the within or attached invoice; that the merchandise is sold or agreed to be sold; that there is no other invoice differing from the within or attached invoice, and that all the statements contained herein and in such invoice are true and correct.

I / We } further declare that ______ and that it is intended to make entry of said merchandise at the port of ______ in the ______ Dated at ______ this ______ day of ______

______ (Seller)

______ (Shipper)

______ (Agent of seller)

______ (Agent of shipper)

CONSULAR CERTIFICATE.
Form 140
(Amended June 1934)

______ (Date)

I do hereby certify that this invoice was this day produced to me by the signer of the above declaration.

I do further certify that I am satisfied that the person making the declaration above is the person he represents himself to be, and that a fee of $2,50 United States currency equal to ______ (Local Currency), has been paid by affixing stamps to the original copy of this document.

Witness my hand and seal of office the day and year aforesaid.

______

INVOICE OF PURCHASED MERCHANDISE

(Place and date)

Invoice of....................... ....*purchased or agreed to be purchased*
by...................... .. .., *of*...
from........................ ...., *of*............ ....
as per order accepted.. . ...
(Date)
to be shipped per...

STATE WHETHER PRICES IN THIS INVOICE ARE IN GOLD, SILVER, OR... PAPER CURRENCY

Marks, Numbers, and Quantities	Manufacturer's Nos. (See Note 1 below)	Full Description of Goods. *N.B.*—Always state the cost of packing, and all other costs, charges, and expenses)	Purchase Price Per Unit	Total Invoice Price	Consular Corrections or Remarks

NOTE 1.—"Manufacturer's Numbers." This column must include manufacturer's grade, quality, marks, numbers, or symbols.

NOTE 2.—If any taxes to which the merchandise is subject are not included in the unit prices given in the column headed "Purchase Price Per Unit", such taxes must be set forth separately and clearly at the foot of the invoice.

NOTE 3.—Items of commissions in the invoice must specify nature of commission, as, "buying", "selling" commission, etc.

(Signature of seller or shipper or agent of either signing in the name of his principal) { *Signature of Seller or Shipper.*

By (authorised agent)..

CERTIFICATE OF ORIGIN (Specimen)

Marks	No.	Packages	Quantity or weight	Description of goods
MONTKB				
Bushire	101	222 Cases	22024 lbs.	Tea

We hereby declare that the above goods were produced in India in the province of Northern India and are shipped to Bushire (Iran) from the port of Calcutta per steamer S/S "Garmula" sailed on the 7th August, 1938.

Per Pro. SEN & CO.,
Shippers.

I, the undersigned Secretary of the Bengal Chamber of Commerce hereby certify that the above declaration was made before me.

Secretary,
Bengal Chamber of Commerce.

Calcutta,
Dated, the 9th August, 1938.

Clean Bill of Exchange

It is a bill which carries no reference to any other document.

Collateral Security

Additional security in addition to an already given one by a borrower to his creditor.

Bill of Sight

When the importer cannot mention the goods accurately in a Bill of Entry from the information supplied by the exporter, he is required to file a declaration to that effect. Then the Customs Authorities will permit him or his accredited representative to open the commodities in the presence of Customs Officials in order to enable him to make the Bill of Entry. The declaration is made in a Form known as a *Bill of Sight* in which the importer inserts all available information, and he expresses therein his inability to furnish further information

without sighting or inspecting the goods. The Bill is then passed on to the Officer-in-Charge of the Dock or Wharf where the goods are lying, and the importer is then allowed to complete the Bill of Entry from an examination of the goods.

Questions

1. What is a Charter Party? Discuss the clauses dealing with excepted perils in a Charter Party. (B. Com. Cal., 1935.)
2. Distinguish between Bottomry and Respondentia Bonds. Very fully discuss the peculiar features of those two kinds of bonds. (B. Com., Cal., 1935.)
3. What is an Import Manifest and a Documentary Bill?
4. Discuss the importance of Letters of Credit in Foreign Trade. What are the different types of such Letters of Credit.
5. Define and describe Trust Letters of Credit.
6. What are Consular Invoice and Certificate of Origin?
7. What is a Charter Party? In case of a Charter Party does the ship come for, the time being, into the entire possession and control of the charterer, and do the master and crew become his servants? Explain fully the different aspects of the question. (B. Com. Cal., 1940.)
8. What is (*i*) a Charter Party? Carefully distinguish between Voyage Charter and Time Charter. (*ii*) What is meant by "Lay Days"? (*iii*) What are the usual exceptions in a Charter Party? (B. Com. Cal., 1944.)

CHAPTER XXIII

CUSTOMS AND EXCISE

General

Every Government generally derives revenue by imposing taxes on goods. These taxes may assume either the nature of customs duties or excise duties. Customs refer to duties which are paid when goods pass out of or into a country. They include duties which are levied either upon imports or exports, that is, they are either import or export duties.

Excise duties refer to taxes levied upon commodities, produced and consumed within the country. Excise duties may also be levied upon other than on goods, *e.g.* entertainment taxes, duties on patents, etc. Excise duties are sometimes classified under the following heads: (*a*) They include duties which are imposed upon commodities, *e.g.* excise duties upon salt, sugar, cotton, etc. (*b*) They comprise licence duties which are payable when any individual is licensed to sell certain specified commodities. This kind of licence in India takes either of the two forms, namely (*i*) liquor licence which enables an individual to sell bear, spirit, wine, etc., (*ii*) licence other than a liquor licence entitles an individual to sell motor oil, petrol, tobacco, etc.

A duty, be it a customs or an excise, may be levied either according to the value of the commodity or its quantity. In the former case, it is known as an *ad valorem* duty, while in the latter case, it is generally called a specific one.

Economic Significance

The first and primary object of any customs duty or of an excise duty is revenue. If a duty, be it a customs duty or an excise duty, is imposed, and some commodities pay that duty, it means a revenue income to the Government.

Secondly, customs and excise duties may have protective effects. If an import duty is imposed without a corresponding

excise duty upon a competitive domestic product, the import duty to that extent will give protection to the local industry concerned. In order to make an import duty fully protective in its effect, it should be so high as to prohibit import altogether. A fully protective import duty should, therefore, yield no revenue. Thus, for example, the import duty on foreign matches in India has become fully protective, because no foreign matches enter this country owing to the high import duty.

An export duty can, similarly, be revenue yielding, protective, or both. In this case, protection will, of course, mean protection of a foreign industry, and as this is never desired by an country, export duties are never resorted to, except for purposes of revenue. It is, therefore, always found that export duties are invariably imposed if at all upon a commodity, which is a monopoly of a country. Thus, for example, there is an export duty on jute in India.

Excise

An excise duty may be either revenue-yielding, protective, or both. In this case also, protection will mean that of a foreign industry, and since it cannot be the aim of any country to do so, excise duty is invariably imposed for purposes of revenue only When excise duties are levied upon a commodity, which, also, competes with an imported article, the protective effect of the excise duty is checked by levying an equal import duty on the foreign imported article. Since revenue should be the sole object of an excise duty, it is usually imposed upon a commodity of general consumption, and the demand of which is inelastic, so that a small excise duty yields a large revenue, *e.g.* the salt and sugar excise duties in India.

Whenever a duty, be it a customs or an excise duty, is imposed, its desired objects are stated. When an import or an excise duty is levied for revenue only, then the allied protective nature of such a duty must needs be checked by the imposition of a countervailing duty. Thus, for example, if an excise duty is imposed, its protective effect may be checked by levying an equal import duty on the foreign competitive

article, and this import duty becomes the countervailing duty in this case. Similarly, in case of an import duty being imposed for revenue only, countervailing duty will take the form of an equal excise duty on competitive domestic products.

Drawback

When an excise or an import duty is imposed upon a commodity, intended for domestic consumption, then a refund of the duty paid may be claimed, if the commodity is, again, exported. And such a refund is called a *Drawback*, be it an "Excise Drawback" or a "Customs Drawback". *Debenture* in this connection refers to that document which entitles its holder to claim the refund. Such a debenture is transferable by endorsement and signature.

Bounty and Subsidy

Bounty denotes a bonus or financial aid granted by a government to an industry or exporter in order to enable the industry to establish itself on its own feet and to compete successfully in the foreign market. This is usually given at a certain percentage of production, *e.g.* a bounty of so much per ton. The system of bounty is widely practised in Japan and the continent. The Indian iron and steel industry has been fostered by the grant of a government bounty.

Subsidy refers to a single lump sum or annual financial assistance given by the Government to an industry. It is usually granted to an industry which is essential in national interests. Bounty generally tends to confer benefits upon a particular industry, while a subsidy is given in the general interest of the nation. The Cunard Line was granted a subsidy in order to keep up regular Royal Mail services. The Japanese shipping industry is also protected by means of subsidies.

Key Industries

In every country certain industries are always regarded as vital or key industries. They are essentially required in the interests of a nation, and they usually serve as the basic

industries upon which are built up other important industries of a country. The importance of such industries is fully evident in case of a war. Then they are vitally required for the prosecution of a successful war. It is now the usual practice of every country to protect such key industries through tariffs, bounties, subsidies, etc., by means of enacting Safeguarding of Industries Acts.

Dumping

Sometime it is found that an industry of a particular country exports commodities which are sold in a foreign country at prices less than costs of production, or less than at which they are sold in the home country. This type of trade is known as dumping, which may be directed either towards thwarting foreign competition by underselling or disposing of the surplus production abroad to avoid depressing prices in the home market.

Questions

1. What is the difference between Custom Duties and Excise Duties? Give a broad classification of Excise Duties. Explain the meaning of the terms :—Drawback, Bounties, and Subsidies.
(B. Com. Cal., 1923.)

2. What do you mean by duty on goods, and why is it levied? Distinguish clearly between Custom Duty and Excise Duty.
(B. Com. Cal., 1935.)

3. Define Key Industries and Dumping.

4. Distinguish carefully and define "Excise duty" and "Customs duty".
(B. Com. Cal., 1943.)

5. Distinguish clearly between Customs and Excise Duty. What are the principal factors to be taken into account in fixing these duties?
(B. Com. Cal., 1944.)

CHAPTER XXIV

MARKETS AND COMMODITY EXCHANGES

Market

In popular usage, a market generally denotes a place where commodities are bought and sold, but in economics, market has a wider significance. It does not necessarily mean any place or locality. A market refers to a group of buyers and sellers of a commodity competing freely with one another for the purpose of exchange. The extent of an economic market will comprise as big an area as there are buyers and sellers. It is confined to a particular area and is known as a local market when buyers and sellers extend over a particular locality only. It is known as a national or international market according as buyers and sellers extend over a nation or several nations.

The conditions which make a perfect market are generally (*a*) open and free competition amongst buyers and sellers, and (*b*) easy methods of transport and quick means of transmission of news. When these conditions prevail, the price of a commodity in a market tends to be determined by the conditions of demand and supply. The price thus determined at the equilibrium point of demand and supply is generally called the normal price. The price which is determined in a market on any day is known as the market price, which always tends to equal the normal price. The conditions of demand and supply are governed by marginal utility and marginal costs of production, respectively. When perfect conditions of competition prevail, there can be only one and uniform price at any particular time, because free competition amongst buyers and sellers cannot bring about any different prices for the same commodity at any given time.

Generally in popular parlance, markets have been classified under various categories. It is called a *Wholesale Market*, when commodities are sold wholesale to dealers. A *Retail Market*

refers to one where things are sold directly to consumers. Again, there are *Commodity Markets,* referring to those where raw materials are usually dealt in, *e.g.* cotton, wool, tea markets, etc. A *Capital Market* refers to any kind of institution where the savings and surplus funds of the community are lent to traders, businessmen and others who require them. Amongst them, the *Stock Exchange* is by far the most important one. The *Money Market* is also a part of the Capital Market, and is mainly concerned with those who lend and borrow money only for short periods. Banks usually play the most important role in such a market. Then we have got the foreign exchange market where buying and selling of foreign currencies are made. In international trade, indebtedness among countries arises upon the mutual exchange of commodities, and it is settled up by means of foreign exchanges.

Markets are sometimes known as Organised when they are governed by certain rules and regulations.

In order to have a wide market, especially, an international one, it is necessary for the commodity to be capable of being *sampled and graded.* When goods are sold by sample and grade, they can be bought and sold from long distances by mere description. When goods are uniform, a sample is enough to guide any prospective buyer to make his purchases on the basis of the sample.

Advantages of Grading in modern economics are many. A commodity which can be graded usually commands a wide market, because people from distant areas can buy the commodity by mere inspection of a sample which conforms to the bulk In case of a graded commodity, its quality, size and quantity are definitely known factors. Dealings in futures become easier in case of a graded commodity. Financing of the marketing of graded commodities is much easier, because the financier knows exactly the kind of security against his advances.

The importance of grading becomes of supreme importance in case of agricultural commodities if they want to sell in a wide market, especially in an international one. Thus, for

example, it has been possible to have an international market in case of cotton, wheat, tea, etc., because they are graded. Marketing of Indian agricultural commodities is largely handicapped by absence of proper grading. The fundamental measure of improving agricultural marketing in India consists in the introduction of grading of Indian agricultural goods. The Government of India and other provincial governments have now seriously taken up this question, and they are trying to introduce the scientific grading of several agricultural commodities. The grading of wheat, linseed and cotton has been successfully introduced by the Government of India. Proper grading of jute and sugar-cane are likely to be soon introduced by the Governments of Bengal and United Provinces, respectively.

In this country, a separate department has been created by the Central Government with the Marketing Adviser to the Government of India at its head and with his Assistants and Provincial Officers in the different provinces. They are carrying on marketing surveys of agricultural commodities. The Indian Central Cotton Committee and the Indian Central Jute Committee have also investigated into the problems of marketing of cotton and jute respectively.

The leading association which regulates speculative operations in cotton in the country is the East India Cotton Association of Bombay. For wheat the Chambers of Commerce at the ports and in the mandis of Lyallpur and Hapur are the chief agencies.

Forwarding Agent

A forwarding agent refers to one who is employed when goods are exported to a foreign country. His duties include the receiving of goods at the docks, arranging freight, attending to the customs formalities, procuring the necessary bills of lading and effecting marine insurance on the goods. When goods are imported, the services of a *Clearing Agent* are utilised. He attends to the customs formalities, takes delivery of the goods from the steamship company and forwards them to his principal

according to his instructions. The same person or firm may act both as forwarding and clearing agent.

Produce Exchange or Commodity Market

A Produce Exchange denotes a market where commodities are bought and sold. Produce exchanges, especially of cotton, wool, tea, etc. are now so organised that dealings in them are strictly regulated and governed by rules and regulations. In the produce exchanges, usually graded commodities are bought and sold, and hence commodities are dealt in by grade and sample. It is not necessary that the commodities should be physically exhibited.

In almost every country organised markets have grown up in dealing with commodities—where sellers and buyers can come, meet and exchange mutually their goods.

Commodity markets or exchanges may be either general, or special. A general commodity market is found where more than one commodity is dealt with, while a special commodity exchange devotes itself, particularly, to dealing with one commodity only, *e.g.* jute and cotton markets in India.

Spot or Future Dealings

In any market or exchange, commodities may be either dealt in on "Spot" or "Futures" transactions. The former means such dealings, which are closed immediately by the delivery of goods in exchange of cash price. Dealings in futures denote that the contract of sale is closed, but the seller contracts to deliver the goods at some future date as fixed in the contract, and the buyer also agrees to take delivery by payment of cash price at the same future date.

In almost every organised produce exchange, every contract is regulated by certain rules. Generally a future contract may be either (*a*) basis contract which means that in a contract in futures the seller has the option of delivering goods of various grades which range within prescribed limits, or (*b*) specific contract, when the seller undertakes to deliver commodities only of a certain specified grade.

Goods for future delivery on a "Future Contract" refer to commodities which are either already produced or may have to be manufactured in future. But a contract for deferred delivery refers to goods which are already produced, and the delay of delivery is occasioned owing to time involved in transit.

Corn Exchanges

The most important of exchanges dealing in corn are the Baltic Exchange and Corn Exchange in Mark Lane in London. The former generally deals in contracts of goods "to arrive," whereas the latter is concerned with spot transactions. Very often the members of the two Exchanges are common. They generally contract for goods "to arrive" in the Baltic Exchange and sell it spot on the Corn Exchange.

The form of contract in the Baltic Exchange is regulated by the London Corn Trade Association which usually stipulates that the grain shall be of a fair average quality. If it falls below this standard, buyers are entitled to an allowance, while no allowance is given if the qulity is above the average.

Any dispute is referred to arbitration which generally consists of two members who are members of the Exchange. The buyer nominates one and the seller another, and a third may be appointed by the two arbitrators. If the arbitral award is not acceptable, there may be an appeal to the Appeal Committee of the Association.

Wheat is graded according to quality by the Association excepting wheat coming from Canada or the United States of America because the Governments in those countries guarantee the grade.

Spot goods may be rejected before 11 A.M. next day after sale with adequate reasons stated, but forward goods, that is to say, goods "to arrive" cannot be so rejected. Any difference in quality in the latter case must be adjusted by means of allowances.

Cotton Exchange

The Liverpool Cotton Exchange is the distributing centre of all cotton supplied to the Manchester mills, and is by far the

most important of its kind throughout the world. Dealings are mostly in "futures," and marketing is done essentially by sample and grade. There is no auction as found in other commodity markets. Grading is generally regulated by the Liverpool Cotton Association, and in case of taking delivery of "futures," and any commodity near the specified quality as in the contract is usually accepted by a buyer after giving allowances. Any dispute is usually referred to an arbitration for settlement. The Cotton Exchange publishes bulletins giving all information regarding production and stocks of cotton. Dealings in "futures" must be carefully made as prices of cotton tend to fluctuate very often.

Tea Exchange

The Tea Exchange in Mincing Lane, London, is the greatest tea market in the world. Tea is sold by auction in the Commercial Sale Rooms of the Exchange. Tea is imported and warehoused pending its sale.

The auction sales are public and the people may buy directly. But the majority of buying and selling are done by brokers.

A selling broker acts on behalf of the importer, while a buying broker in favour of the purchaser.

When an importer obtains a consignment of tea, he informs his selling broker to arrange for its sale. The broker immediately proceeds to make a list giving the description, weight and quality of each lots of tea. He usually prepares the sample. Sampling and grading are the important functions usually done by selling brokers. Then he sends the list to prospective buyers, giving the date of auction, and the name of the warehouse where the sample can be inspected. Generally there are regular days for auction, *e.g.* Java and other teas on Thursdays, Indian teas on Mondays and Wednesdays, Ceylon teas on Tuesdays and sometimes on Thursdays as well. In the auction sale, the buyers bid in competition as each lot is put up for auction. After the auction, the selling broker sends to his Principal a Contract Note stating all details regarding the sale of each lot.

He also sends to the buyer a Weight Note stating the buying price, quality, quantity, etc. and the balance of the price after deducting deposit which must be made at the time of purchase. The balance must be paid on or before "Prompt Day," coming after three months. When the buyer pays the balance, he is given the warehouse warrant entitling him to take delivery of the tea. The Central Tea Clearing House in Philpot Lane affords a place where all documents may be safely deposited and accounts are squared up. Any matter of dispute is settled by means of an arbitration.

Wool Exchange

The Wool Exchange in Colman Street, London, is a very important one. Wool, like tea, is also sold by auction. There are generally six series of Colonial Wool Auctions held in this Exchange, each series lasting from two to four weeks. Any Colonial wool arriving at least eight days prior to the sale of a series may be included in the series. Wool, after importation, is carefully warehoused in warehouses maintained by the Port of London Authority as well as private firms. Immediately after importation, all wool is entrusted to the care of the constituent firm of the Associated London Selling Wool Brokers. The importers send to their selling brokers "Sampling Orders" which entitle the latter to have access to warehouses for purposes of sampling and grading. The selling brokers then prepare catalogues after making proper samples and grades. On the morning of each sale, wool is on view for inspection. Then at 3 P.M. the buyers meet in the Sale Room in Colman Street, and auction begins, and buyers bid in competition. "Prompt Day," that is the day of final payment of price comes after seven days of auction, though a deposit is taken before this final payment. Then goods are delivered to the buyer.

Metal Exchange

The Metal Exchange in Whittington Avenue, London, deals only in tin, copper, lead and spelter. Members of this Exchange are few. They meet and sit in a circle, and bargain

with one another for the sale and purchase of their commodities. Generally ten minutes are given to one metal, and they will not hold the market for more than eighty minutes. They generally deal in other metals outside the exchange.

Bombay Cotton Market

The marketing of cotton begins from the time the produce is ready in the hands of the cultivator for disposal. Even it begins earlier when the standing crop is hedged or sold against future delivery. In case of such forward sales, the price is either fixed at the time of the contract or is left to be fixed on delivery, according to the quality of the produce. In Central Gujerat, the gin-owners enter into forward agreements with the cultivators, at the beginning of the harvesting season, to purchase their produce at given prices according to samples. At times the farmer takes an advance from the money-lender and hypothecates his kapas (unginned cotton). The rate as such is generally lower than the market price in the season. During the season the cultivator sells his produce in the village to the sowcar, the village dealer, the itinerant beopari, or the agent of a mill or exporting firm. If he takes his cotton to the market he sells it through an arhatiya who charges his commission.

The marketing procedure in the mandis is nearly the same as in the case of other agricultural produce. Carts and pack animals are taken to the ginneries or to the compounds of arhatiyas where the loads are opened and inspected by the agent of the ginneries or other purchasers. The price is fixed under cover or openly, according to the custom of the market. The kachcha arhatiya acts as the middleman between the seller who may be a farmer or beopari and the purchaser. Allowances are frequently claimed by the purchaser after weighing starts on the ground that cotton is adulterated or damp or is inferior in quality to the sample shown from the top or has a low ginning percentage. In the absence of facilities for storage and financing the farmer must agree even to the unreasonable claims of the purchaser. The arhatiya is responsible for the payment to the

cultivator who usually gets it soon after his cotton has been weighed and delivered to the buyer. In the regulated markets of the Central Provinces and Berar, there are executive committees representative of all interests. Weights and scales are occasionally inspected and tested and every effort is made to ensure a square deal to the seller.

The next process after the sale of cotton is its ginning and pressing. A farmer cannot undertake to have his own ginning and pressing machines owing to his poverty. He sells unginned cotton to the merchants, ginneries or agents of big firms, who arrange its ginning and pressing. The gin-owners in India are of different types. At places, like Khandesh, Bombay and C. P .and Berar, they do not gin their own cotton, but undertake to gin and press their customers' cotton at a fixed rate. In Gujerat and North India there are cotton merchants who buy and stock cotton on their own account. They purchase kapas and sell bales, generally of 400 lbs. each, to the agents of Indian Mills or exporting firms. Some of the Bombay mills and foreign firms have recently established their own factories in the cotton areas. The cooperative societies have also started their own ginning factories at suitable centres in the cotton growing areas near about Surat in Bombay, where the cotton brought by members is ginned, graded and pooled before it is sold to large buyers in big lots.

Ready and Forward Business

Spot contracts are entered into on the basis of samples or by inspection of the goods which are generally lying on the spot in the godown or at the spot of the seller or his arhatiya. Delivery may be postponed in case of spot business, but a contract in 'futures' is a basic contract. The price is fixed on the basis of certain recognised grades, *e.g.*, cotton futures in Bombay cotton market, upto the time of the adoption of the new Indian Cotton Contract on the 14th of July, 1942, existed in three varieties of cotton, viz., Broach (Fully Good), Oomra (Fine) and Bengal (Fully Good).

Whilst the East India Cotton Association was organising the cotton trade of Bombay, small speculators, whose activities were more of a gambling character, organised an association known as the *Khandi Bazar* where the dealings took place not in bales but in *Khandis* (one Khandi is equal to two bales). This was subsequently reconstituted under the title of Shri Mahajan Association which adopted, some of the rules of the East India Cotton Association and started transaction in Broach cotton, the chief hedge contract of the East India Cotton Association. The unit of trade adopted by the Association was of five bales only and, therefore, it could persuade small operators. One of the complaints of the cotton trade against the Mahajan Association was that it kept no record of the bargains effected and of the differences paid one way or the other. Consequently, the operators on the Mahajan Association escaped income-tax. In 1932, a third body started functioning under the name of Indian Cotton Exchange, but it could not flourish.

With the passing of the Bombay Cotton Contracts Act, 1932, the representation of growers was increased and at present there are on the Board five such representatives, three nominated by the Indian Central Cotton Committee and two by the Government of Bombay. One of the qualifications of an agricultural representative on the Board is that he should not have dealings in forward contracts and must be a grower of cotton, preferably as a worker on the field, if possible.

Additional change in the cotton contract came in July 1942 when the East India Cotton Association of Bombay adopted the new Indian Cotton Contract as the basis of hedge contracts in Bombay. During the past twenty years or so, the basic grade was "Fully Good M. G. Broach" for contracts in futures, entered into by members of the East India Cotton Association, Bombay. During the present war, the situation was reviewed for several reasons. While on the one hand the export of short staple cotton to Europe and later to the Far East almost stopped, the consumption of Bombay mills increased considerably. There was a growing demand for long staples and,

therefore, to make the hedge contracts to conform to the conditions created by the war, the basis of contract was changed from Broach which was about ¾" staple to "Fine/M.G. Jarilla" which is ¾" minimum and up to ⅞" at current premia. Other kindred varieties are also tenderable, provided they have a minimum staple length of ¾".

Provision has also been made in the new contract to check wild manipulations of the market by bears, bulls or corners. If a requisition is made, signed by at least fifty members of the Association, stating therein that a corner or 'squeeze' exists, the general body shall meet within there days of the date of the requisition and if it is satisfied that a state of emergency exists it shall devise measures to control manipulation of the market.

Another new feature of the contract is that a *bona fide* seller may give delivery at a centre in the interior, if it is not possible for him to bring cotton to Bombay owing to shortage of wagon supply. The penalty for default in delivery in such cases has been reduced from Rs. 25 to Rs. 7/8 per candy. The buyer can demand delivery in the interior and if the seller is unable to give delivery at an up-country centre, he becomes liable to a penalty of Rs. 25 per candy. The new contract is a war-time measure and will be reviewed in the light of its working after the hostilities cease.

The Bombay Cotton Exchange is by far the most important of its kind in India. It is styled as the "East India Cotton Association Ltd." It was registered as a public limited company in 1921. The Association has got a Hall in which the members meet to transact business. In addition, there are several rooms for office and sampling and grading of cotton.

Contracts in this Exchange may be either on basis of spot or future transactions. Dealings in futures are very common, most of them being speculative in character as we find in case of the Calcutta Jute Market. In case of taking delivery in a forward contract in Bengal and Oomra, the quality at the delivery time may be up to half a grade below the basis grade, whereas in Broach and Southern Districts, the quality may be up to the grade below is allowed. The delivery months for

the former two are January, March, May and July, whereas they are April, May, July, August and May, June, August, September in case of Broach and Southern Districts respectively.

Tea Exchange in Calcutta

The Calcutta Tea Exchange is the biggest tea market in India. Tea is sold here by auction, and the market is regulated more or less in the same way as the London Tea Exchange. The auction sale takes place every Tuesday and Wednesday at the Sale Room provided for the purpose by the Tea Brokers' Association at Mission Row, Calcutta. The contracts are all made amongst brokers. Tea at this market must be marketed through a broker. Generally tea is brought down to Calcutta and warehoused in Kidderpore. Then the selling brokers get into touch with the owners, and obtain proper samples. After this, the brokers prepare catalogues dealing with quality, quantity and price. Samples are available and may be inspected by the intending buying brokers or buyers. Then auction takes place, and the highest bidder gets the sale. Any complaint regarding quality must be lodged within six days of sale. "Prompt Days," that is, the day of final payment of the full price is usually the tenth day after the sale is made. If the buyer does not take delivery on the "Prompt Day," all damages and losses occasioned by any re-sale must be borne by the buyer. The risk of storing the goods remains with the seller up to the "Prompt Day," if delivery is not taken of earlier. After receiving the full payment of the price, the selling broker remits the sale proceeds to his Principal after deducting his own commission.

Jute Marketing

Jute is not only a staple economic commodity of Bengal, but it can also be said to be its monopoly product. In view of the enormous economic significance which jute possesses so far as Bengal is concerned, it may be useful to note the marketing of jute in Bengal in detail.

Jute Grown

After jute is harvested, cultivators take it to their village, local markets, or local huts as they are called, and sell their products to Farias or merchants. The former very often buy jute from cultivators, by going from house to house, and sell it to Merchants.

Calcutta Jute Markets

After buying jute in the Mofussil, the merchants generally warehouse it in their godowns. Some of these merchants press it in their own presses, grade it and stock it in kutcha bales, each consisting of 3½ mds. These kutcha bales are then sold to Calcutta mills, who manufacture jute goods, or to jute balers, who usually undertake to export them outside India. Merchants who have no presses usually send jute in package of 1 md. drums as they are called to Calcutta for sale, especially in Hatkhola, Chitpur, etc. The mofussil merchants generally sell jute to Calcutta mills or balers either on the basis of spot or "forward" contract deliveries. Jute balers generally make pucca bales of 400 lbs. or about 5 mds. each after getting jute duly pressed in the presses round about Calcutta.

It is frequently the practice of both Calcutta mills as well as jute balers to keep their own agents in the mofussil to purchase jute directly, either from the cultivator or from the Farias. Very often they advance money to Farias, who in turn advance money to growers who often contract beforehand to sell their products to pre-determined buyers at a stipulated rate.

In between the growers and ultimate consumers there is a large body of middlemen who, generally, intercept the bulk of profits, and complaints are rightly made that jute-growers do not get their proper price. Various methods have been suggested to rectify this anomalous state of affairs. In order to enable cultivators to obtain better prices, it is necessary to increase their staying power by increasing their financial credit and resources, to introduce regulated markets, to improve grading, storing, etc. Steps ought also be taken to organise

collective methods of sales amongst cultivators, especially through the proper organisation of the co-operative movement.

Baled Jute Markets in Calcutta.

In Calcutta, jute is marketed through brokers. Pucca bales are bought and sold in Calcutta either by local jute mills or by jute exporters. Calcutta baled jute market may be said to consist of two distinct sections, namely, the "spot" market and the "futures" market.

The Spot Market

The baled jute in Calcutta, again, is bought and sold in two distinct markets, namely, the Royal Exchange in Clive Street and the Jute Balers' Association on the opposite side of the road, facing the Royal Exchange.

The Royal Exchange is a monopoly of European exporters, and Indian brokers are to deal in here through the medium of European brokers.

The jute Balers' Association is mainly intended for Indian exporters. It was registered as an Incorporated Company in 1918. It is managed by a committee of four, elected from amongst the members.

In both these markets, transactions take place for actual spot deliveries, and no "futures" are allowed. Prices in these markets are naturally determined by the usual economic forces of demand and supply.

The Jute Futures Market

Like every other commodity, jute has also developed a highly organised "Futures" market of its own, and is known in Calcutta as "The East India Jute Association Ltd." It was registered in 1927.

The members of this Association can take in four, each, as their representatives, who can transact in behalf of their principals. In every transaction conducted on the floor of this Association, the official form of contract must needs be used. No contract can be made for in less than 250 bales, and is to be

exchanged the next day after the transaction is closed. Contracts are, generally, made between members, and can be made with a non-member, too, provided the latter is submitted to the Association within two days of the transaction.

The Association has made elaborate rules for actual delivery and payment, but in practice hardly any transaction results in actual delivery. As a consequence, the Futures Jute Market in Calcutta has partaken entirely of the character of a gambling den, and is rightly termed as a "Fatka" market. Since hardly any transaction is made for an actual delivery, the market has become a purely speculative one, where gambling and speculation are rampant. Transactions are generally settled and closed by paying "differences" as they are known. Buyers and sellers do not intend to give nor take actual deliveries, but they settle their transactions amongst themselves by paying the differences in prices on the settlement day, *i.e.* if one buys and then prices move against him, he closes the transaction not by actually taking delivery of the commodity purchased, but simply by paying the difference between his buying price and the changed price (at the time of settlement) to the seller, and *vice versa*. By conventions and customs, actual deliveries are not insisted upon by either buyers or sellers ; theoretically however the Association rules confer such rights of actual deliveries upon all dealers in the Association.

By thus becoming mostly a gambling type of market, the Calcutta Jute Futures Market has invited criticisms. It is not merely an unproductive institution, but it is demoralising and its baneful results in other economic spheres must be duly reckoned with. Since 'Fatka' market transactions are made indiscriminately according to the whims and caprices of the Fatka dealers, prices in this market are determined arbitrarily by the gambling instincts of such speculators and have no touch and connection whatsoever with realities—demand and supply of jute have no voice in determining prices in the Jute Futures Market.

The Fatka market price has, unfortunately, a direct influence upon the prices which, generally, prevail in genuine jute markets, like the Royal Exchange, the Jute Balers' Asso-

ciation and elsewhere. A direct correlation and contact have been made between the East India Association and other genuine markets, because many of the members who operate in the two types of markets are common. So prices in genuine markets are not anchored as they should be to the moorings of demand and supply, and consequently, genuine operators in the genuine jute markets are always panicky, and experience unexpected fluctuations in prices. The Fatka market not infrequently demoralises the tone of the genuine jute market, and disorganises the latter.

Hence, genuine dealers in jute have not wrongly urged for immediate rectification of the situation. Various suggestions have been offered to correct this state of affairs, and lately, the Government has been giving its attention to the problem.

Complete abolition of the futures market is not the desirable remedy. Futures market by itself is not an unhealthy economic institution. On the contrary, it is already demonstrated in a previous chapter (Ch. IX.) how a proper futures market can really be made to contribute to better economic well-being of the society. What we can recommend here is not the abolition of the Fatka market, but its correction. The Jute Futures Market should be so remodelled and improved that it may become really a futures market in the economic sense of the term. Purged of its present evils, the Calcutta Jute Futures Market can be improved to function as a healthy economic institution like any other genuine futures market.

The Government of Bengal appointed Prof. Todd to enquire into the Jute Futures Marketing and to suggest reforms, if necessary. He submitted his interim report in January of the year 1941. He pointed out that the following are some of the glaring defects of the present Jute Futures Markets.

(1) The existing pucca bale contract is very narrow, so that the market could be "cornered." It is useless for the producers or purchasers of kutcha bales.

(2) The sytem of tendering is almost non-existent. The four delivery months really boil down to only one contract for

delivery in June and there is very little real delivery even then —only the transfer of a pucca delivery order.

(3) There is too much speculation of the worst kind in the market and very little genuine hedging business. The Gudri and Kutni markets are of course impossible. The East India Jute Association has on paper most of the structure of an organized futures market, but many of its regulations have not been properly enforced. The Board of Control has degenerated into a routine Committee for the fixing of the Clearing Rate. The Futures market has, therefore, entirely failed to command the confidence of the trade as a whole.

(4) The difficulty of reform, *e.g.* by the introduction of a kutcha bale contract, has been largely due to the very unsatisfactory state of affairs with regard to the standards for loose jute, which have always proved unstable in spite of repeated attempts to introduce new standards that would be permanent.

(5) The question of excessive moisture in jute and the variability of the weights used in the trade have caused great inconvenience and loss.

Prof. Todd, therefore, suggested the following remedies:—

(1) The establishment of a new body to be called the Indian Jute Federation representing every interest in the trade, including the growers through the Government, and certain wider interests, *e.g.* Science, Banking and Shipping.

(2) The Federation would be constituted by legislation which would declare all futures trading in Jute or Hessians illegal, except under the aegis of the Federation. It would also have the exclusive duty of establishing and maintaining standards or grades for jute.

(3) To check undue speculation a limit might be imposed on the "open interest" of each broker or of each client. Every client should make and maintain a deposit of say 10 per cent. on his obligations to his broker. Settlement of margins should be weekly.

(4) Futures trading must be absolutely confined to the business hours of the Exchange and carried on only in the

"Ring" on the floor of the Exchange, every transaction being recorded on the Price Boards.

(5) All contracts, whether between members themselves or between members and non-members, must be in writing and registered with the authorities of the Exchange. If necessary, the contracts could be handled by a reputable accountant and only the statistical results communicated to the Directors under proper safeguards.

(6) A limit should be imposed on the daily price fluctuations based on a percentage of value, say 8 annas on a basis price of 8 rupees per maund.

(7) Brokerage should be fixed and compulsory on a percentage basis, say ½ per cent.

(8) The present pucca bale contract should be replaced by a kutcha bale contract with a unit of 1,000 maunds and a price unit of 1 maund (1 maund=82 2/7 lbs.).

(9) A new set of standards for loose jute, to be known as the Government grades, must be established by the Federation and must become the sole standard permissible in any contract for the sale of jute. This, however, does not prevent sale by sample or by private marks, so long as no grades or standards are used or implied in the contract. A clause on the lines of the American Cotton Standards Act should be included in the proposed legislation.

Marketing of Wheat

In India the following are the important agencies which assemble wheat from the grower:—

1. Growers, landlords or cultivators who bring their own wheat for disposal to the market.
2. Cultivators who collect the produce of other growers.
3. Landlords collecting the produce of their tenants.
4. Village baniyas (shop-keepers).
5. Itinerant dealers and petty merchants who move from village to village (beoparis).
6. Kachcha arhatiyas or small commission agents in the primary or assembling markets.

7. Co-operative commission shops or sale societies.
8. Pakka arhatiyas or large commission agents and wholesale merchants and mills.

Wheat markets may be classified into four groups, namely,

(1) *Primary village markets.*—They are generally held periodically and include *penths, bats, ghandis* and fairs. They function as primary assembling centres of the produce of the neighbouring villages and final retail distribution markets. The days of penths or hats are so arranged that itinerant dealers can visit the neighbouring markets. They come in direct contact with the village producer who brings his produce very often to barter with cloth, utensils, ornaments, cheap metals, kerosene oil, etc.

(2) *Secondary Markets.*—They are held daily and in the season, there are good arrivals of produce in them. In the Punjab and the Western districts of the United Provinces a number of fairly good mandis exists practically in every district. Kandla and Shamli (Muzaffarnagar), Deoband (Saharanpur), Khatauli, Baraut (Meerut), Sikandrabad, Dankaur, Khurja (Bulandshahr), are some of the important secondary markets in the West U. P., where, in each one of them, several maunds of wheat are collected every day. Their organisation is similar to that of the principal mandis or markets. Wheat is stored in khattis and kothas in every one of these mandis. At some of these places, we find Pay Offices of the Imperial Bank of India or the Allahabad Bank, Ltd. These mandis collect the produce from the primary mandis and from the villages generally within a radius of 12 to 16 miles. Most of the produce assembled is transported by rail or road to the principal mandis. Some of these mandis have their Chambers of Commerce which regulate speculation and lay down rules and regulations for the conduct of business in the mandis.

(3) *Principal Markets or Mandis* refer to the large wholesale markets in every province. In the season wheat flows to them not only from the neighbouring mandis but even from distant markets. For example, large consignments of wheat arrive in the Hapur mandi, not only from the U. P. markets,

but even from the Punjab and Hapur. Ghaziabad, Muzaffarnagar, Chandausi and Cawnpore in the U. P. are some of the leading principal markets of wheat in Northern India. There is however no clear-cut division between the secondary markets and the principal markets. A large number of secondary mandis store large amounts of wheat and transact future business. Some of them have their own Chambers of Commerce or trade associations. For all practical purposes, the principal markets, and some of the secondary mandis too, can be characterised as regulated markets. The local associations or panchayats regulate business in these mandis. As a result of these organisations, the market charges and practices have been standardised. Though there is no representation of producers on these committees, it should be said to their credit that the charges have been reduced and the malpractices minimised.

(4) *Terminal Markets.*—These are the markets at the ports of Karachi, Bombay and Calcutta which are concerned with the export trade as well as with the internal distribution. On arrival at the ports, wheat is stored temporarily in large godowns or sheds or warehouses owned by the port authorities in close proximity to the docks before it is removed to private godowns or railway sheds for distribution. The shops and offices of the merchants at Karachi are located in the neighbourhood of Bunder Road, while their stocks are usually at the Thola Produce Yard about a mile away, or at Kiamari, three miles off. The Karachi Indian Merchants' Association possesses a commodious hall for the conduct of spot and forward transactions. It should be noted however that more business is transacted on the telephone than by personal contact.

In Bombay there are five markets instead of a centralised one as at Karachi in which grain and oilseeds are traded. The spot market is concentrated round Dara Bunder. The Grain Merchants' Association, one of the oldest institutions of its kind in India, the Marwari Chamber of Commerce and the Grain and Seeds Brokers' Association are leading trade associations for organising "futures" trade in wheat.

In Calcutta large stocks of wheat are stored at Kidderpore.

At Howrah the Railway Company has provided a shed where brokers meet to transact business on the basis of samples. They are permitted to draw from the consignments of wheat at the station. The hours of busness in this market are usually from 4 p.m. to 5-30 p.m. The Calcutta Grain, Rice and Seeds Association, and the Indian Produce Association are the leading trade associations in this produce exchange.

Marketing Practices.—In most cases market practices are governed by mercantile usages and traditions. Except in details, there are no broad differences either in marketing charges or practices between one mandi and another. The same systems prevail practically in every province and every State except where the markets are regulated by law as in the Central Provinces and Berar or the Hyderabad State, or are standardised owing to the activities of the Chambers of Commerce or Trade Associations. One finds the same functionaries and the same practices and charges practically in every mandi except that the charges in bigger mandis are smaller and malpractices fewer owing to the keen vigilance of market committees.

In the marketing season the kachcha arhatiyas send out their touts or servants to receive the sellers outside the town and assist them at octroi office. In some places like Delhi, the arhatiya's man pays the toll or octroi in behalf of the seller, to be adjusted in his accounts after the sale of his produce. The terminal tax at some places is very vexatious and inequitable. For example, at Bulandshahr in U. P., they charge according to conveyance—say one anna for a man's load, four annas for a pony load and one rupee for a cart load. Now, this load may be of anything, say wheat or cotton or even cowdung. Further, whether the cart contains four maunds or forty maunds, the duty remains the same. In almost all cases the owner of the produce has to pay *hag or manfuli* to the octroi staff.

As a rule, business hours in the mandis commence a little after the sunrise. By noon the sales and deliveries are completed and the afternoons are devoted to the settlement of accounts.

Methods of Sale

Sales of wheat are effected in one of the following ways:—

1. Under cover or cloth ;
2. By auction ; and
3. By private treaty or agreement.

The first system prevails practically throughout the country and at many of the largest markets in Northern India, such as Lyallpur and Amritsar in the Punjab and Hathras in the United Provinces. It is also the normal method of effecting sales in Indore and certain districts of the Central Provinces. The rates under the *Purbah* system may be settled either by a single bid as in some of the Central Provinces markets or by repeated bids as in the Punjab and a few other places.

In the auction system the arhatiya or broker invites bids for the produce and the highest offer is accepted as in other auctions. This system is prevalent in the South of India generally and in the large markets of the Western United Provinces, e.g., Hapur, Muzaffarnagar, etc., and in some of the east and central districts of the Punjab such as Ferozepur, Moga, etc. This practice is also found in the C. P., Rajputana and Central India. In some of the markets, e.g., Drug and Rajnandgaon, in the eastern parts of the Central Provinces, there are two auctions, the first carried out by a market official-representative of the municipality, who auctions each heap to the dalals and brokers. When all the heaps have been sold in this manner, a second auction takes place ; this time each broker auctions his own purchases to other buyers.

Under the open bid system, individual buyers may come at any time convenient to them and give their individual offers. The kachcha artatiya may or may not accept any one of them. This practice is common in Delhi, in northern parts of the Punjab, at Muzaffarnagar, Agra, Cawnpore, Benares, Lucknow and most of the other consuming countries in the United Provinces and in the smaller markets of Central India, Rajputana, Bihar and Sind. In Hyderabad (Deccan) the last two systems are common.

Each system has its own advantages and defects. The cover system claims that the buyers who do not know each others' bids offer the maximum rates to which they can go. As against this, in the auction system they know each others' bids and only gradually improve offers. If the arhatiya is dishonest he can cheat the seller who is ignorant of the bids under cover. Generally, it does not so happen. In the larger wheat markets of the Punjab the cover system is the most common, which would be found reasonably satisfactory if the final rates are openly announced at once, as is the practice in some of the Central Provinces markets.

In addition, where sales are made of individual lots there is the practice of "dara sales" for wheat and other grains in the canal colony markets of the Punjab and in some of the principal mandis of the United Provinces, e.g., Hapur, Ghaziabad and Muzaffarnagar. Although it saves time and troubles, discourages the production of good quality, the arhatiyas, do not distinguish between the best and the worst qualities.

They may also favour special clients secretly.

The basis of sale in the case of wheat sold in the market may be subject to:—

(*a*) the removal of dirt and large impurities by *rulai,* i.e. cleaned wheat ;

(*b*) fixed deductions (karda) for dirt, according to usage which may be made either before or after price fixing ;

(*c*) variable deductions settled after the goods have been examined for refraction and general appearance ; and

(*d*) dhaltá or *danc* (weighing allowance). It varies from 4 seer per maund to ½ seer per maund. Generally it is a ¼ seer per maund except in Bihar where it is ½ seer per maund.

Standard-Contracts.—In markets possessing registered Trading Associations transactions are done on a standard basis. These associations provide all particulars of sales, viz., the quality, the unit of sale, the term of delivery and of payment, etc. In case of deviation from quality, they provide rates of discount and premium in case of mutual or reciprocal contracts, but it is not always so, e.g., the contracts in vogue at the

mandis of Ludhiana, Chandausi, Muzaffarnagar and Calcutta are of non-reciprocal nature indicating that the seller will not get any premium if the refraction in the grain supplied by him drops below the tolerance limit. There is no uniformity in these contracts regarding basis of refraction, free tolerances, months of delivery, units of sale, cover or margin money, settlement dates and conditions, in respect of delivery, payment and arbitration, etc. Sales on the basis of standard contract are of two kinds, (*a*) Ready and (*b*) Forward.

Ready sales on the basis of standard contract are confined to places where wheat is stored in khattis or kothas, e.g., Hapur Ghaziabad, Chandausi and Muzaffarnagar in the United Provinces, and Amritsar, Lyallpur, Gojra and Sargodha in the Punjab. Hapur was the first market to form a Chamber of Commerce in the United Provinces for this purpose. Under its rules, every khatti, when filled, is required to be registered at the Chamber, furnishing full address or location of the khatti, its weight and serial number according to the account books of the filler together with the number assigned to it by the bank, if it is pledged.

After verification, the Chamber puts its seal on the form of sale, called langot, which indicates that the particulars given on the form are correct. On the basis of this form or langot, the khatti is sold to the intending buyer, and full particulars of the sale including the price are entered on the form which is now passed over to the purchaser in token of the transfer of ownership. The purchaser has the option to pay 25 per cent of the price, and interest on the balance at the rate of 9 per cent till the final settlement, or pay the full price. In either case, he is entitled to resell the khatti and the new purchaser acquires the same rights. This process can go on ad infinitum. Any body who ultimately possesses the form of sale can claim delivery of the khatti. During the process of sale and resale, the khatti remains in possession of the original seller who is responsible for any damage to it by water entering from the bottom or sides. The purchaser will suffer the loss due to bhagar (infected or stained wheat). He has, however, the

option to demand delivery any time. The contents of the pits in all these transactions are assumed to be standard according to the rules of the Chamber. No party to the sale or resale examines them before delivery. If at the time of the delivery, the contents are found to be above or below the standard of the Chamber, premium or discount is payable. Contracts entered into by the mills or by exporters at the port with sellers in the organised mandis are also based on standard contracts. A short description of the cntracts is given below.

Mills' Contracts.—They refer to the contracts between the trade and the milling companies. They are same in fundamentals and only differ in details. The terms of the contract cover the quality of the deliverable goods, the quantity, the price and the source of origin of the produce. They also include the kind of bagging, the method of delivery and payment and the amount of refraction which may be tolerated by the buyer. Provision is also made for arbitration to settle disputes, generally according to the rules agreed upon between the parties. In case of non-delivery, the buyer is given the following options:

(*a*) to cancel the contract as far as it is unfulfilled ;

(*b*) to repurchase in the local market or elsewhere, at current market rates, such quantities as were undeliverable, the seller being responsible for any loss suffered by the buyer ;

(*c*) to charge the seller with the difference between the current and the agreed rates, or

(*d*) to grant an extension for the completion of the contract.

Usually the buyer advances 80 per cent of the invoice price against a clean Railway Receipt, although a number of mills advance up to 90 per cent even.

Export Contracts.—These contracts also give particulars of quality, quantity, price, delivery, payment and mode of packing, etc. A special feature of the contract is the acceptance by the seller of the buyer's weight and analysis of the goods railed by him to the shipper at the port of loading in consideration of which he may generally have received an advance of 80 to 90 per cent of the value of the consignment either from the shipper

or from his up-country agent. The balance is paid after the goods have been weighed, analysed and approved by the buyer. Wheat for export is usually packed in brand-new B-twill gunnies of 2½ lbs. each measuring 44″ × 26½″. The limit of free tolerance is laid down in the contract and in case of the admixture being in excess of the amount of free tolerance, the buyer is given the option to accept the goods with extra allowances, or get them recleaned at seller's expense or reject them and claim loss from the seller. In case of the refraction being less than the free tolerance limit, the seller is entitled to no premium. The contract is of non-mutual character, which is not desirable as it discourages the incentive on the part of the seller to supply clean produce. The seller must pay if the amount of refraction is found more than the tolerance limit. He is also entitled to get premium for the cleanliness of the produce. The contract also lays down the options remaining with the buyer in the event of failure to deliver or of short delivery or of rejection. These options are, more or less, like those given above under Mills' Contracts. Goods are despatched at seller's expense and risk in wagon-loads and the Railway Receipt is made out in the name of the buyer, both as consignor and consignee. Under contract buyers have the right to weigh the whole lot or be content with the customary average weighing. Goods are guaranteed to be delivered in dry, sound, and merchantable condition, free from damaged and touched grains. In case of any dispute, reference may be made to two arbitrators to be appointed one by each party from amongst the members of a specified Chamber of Commerce at the port concerned.

Forward Sales or Badni Ka Satta.—In the Hapur market the deals or sandas are negotiated by brokers. On the settlement of the bargain, the parties sign the Forward Contract Agreement form in the books of the broker. The standard unit of sales is 25 tons (average capacity of a khatti). Every deal is registered at the office of the Chamber which demands Rs. 150 per unit of transaction from each of the parties, i.e., the purchaser and the seller. This amount is meant to cover the

loss in case any of the parties to the contract backs out. If the price fluctuates by two annas per maund or more the Chamber demands a fresh cover from the party liable to pay. In case, however, the price returns to the original level, the sum is returned to the party concerned, but the initial deposit of Rs. 150 from each party remains with the Chamber up to the final settlement. If a party that has sold 100 units bargains to purchase 100 units in the same month, the Chamber will not demand fresh cover on the new deal because the second transaction serves as a kind of hedging and tends to minimise risks and parties can withdraw the deposit money.

The months of delivery vary from association to association. At the ports, the merchants follow the calender year, but in the up-country towns, Vikrami Samvat (a Hindu calendar) is invariably used. "The months of delivery vary from two in the case of Calcutta to eight at Karachi. As a rule, the majority of the up-country exchanges have adopted six months of delivery although there are a few with four, as for example Hapur and Chandausi, and five as at Lyallpur. Apart from other disabilities, this forms an obstacle to the dissemination of market information. The months of delivery in the Hapur market for Bhani Ka Satta are:

(*i*) Jeth (May-June)
(*ii*) Bhadon (August-September)
(*iii*) Mangsir (November-December)
(*iv*) Magh (January-February)

The final date of settlement is the last date of the Hindu month. Though both parties to a deal have the option to press delivery in kind, the contracts terminate by settlement of accounts. The seller can serve a notice on the purchaser between the 1st and the 25th, while the purchaser can similarly give notice to the seller between the 16th and the 27th month of delivery. These notices are served through the Chamber. In case none of the parties has desired delivery in kind, the Chamber closes the accounts on the last date of the month. The gaining party is paid its profit by the Chamber out of the deposit of the other party and the balance is returned to the

losing party. The price on the last date of the month is fixed by the Chamber in a meeting of its members on that day.

The Chamber registers contracts of its members only. Outsiders can only deal through members who are arhatias in the mandi. Like the Chamber, these member arhatias take an advance of Rs. 150 per unit from each customer-buyer or seller, but they deposit advance with the Chamber only for the balance.

The Mahavir Vyopar Mandal, Ltd.—It is another association, similar to the Hapur Chamber of Commerce, where the unit of transaction is of 200 maunds, and the rules are almost the same.

Besides acting as bull (Tejiwala) or bear (Mandwals) they very often deal in options only. An option is a right to buy or sell certain goods within a fixed time at a price settled at the time the option is given. The giver or seller of an option (called option dealer) receives from the purchaser of the option a fixed amount by way of premium (known as option money).

QUOTATIONS

Calcutta Markets

SELLERS MORE RESERVED IN HESSIAN SECTION

Calcutta, July..............

Loose Jute.—The market is quiet but with mills disinterested and no business passing to test prices sellers quotations are nominally unchanged on the basis of Rs. 12, Rs. 10 and Rs. 8 per maund for New Crop Indian Jat Top, Middle and Bottom respectively.

Pucca Bales.—Weak and easier with sentiment nervous pending clarification of the Far East political situation. Shippers are meantime showing no interest and only small business is reported done with mills in Outport Tossa 4 at Rs. 35 per bale.

Hessians.—Easier rates were offering at the reopening today but buyers were showing no interest and there was no business of any importance reported. The tone at the close was better with sellers more reserved.

At 5 p.m. quotations were :—

		Ready-July.	Aug.	Sept.	Oct.-Dec.	Jan.-Mar.
9 Porters	..	Rs. 20-2	19-4	18-8	17-4	16-4
11 Porters	..	,, 24-6	24-4	23-12	22-0	20-0

Heavy Goods.—Were also easier and small business was reported in B. Twills at Rs. 37-8 and Heavy Cees at Rs. 36-8 both Oct.-December shipment.

Quotations for August shipment are :—B. Twills Rs. 38-12. Liverpool Twills Rs. 44. Cornsacks Rs. 39-8.

JUTE FUTURES

(EAST INDIA JUTE ASSOCIATION)

Opened	..	..	..	..	Rs. 58-12
Lowest	..	..	..	..	,, 58-12
Highest	..	..	..	..	,, 60-10
Closed	..	..	..	..	,, 60- 0

The market is ruling steady.

Linseed.—Ready Rs. 6-2 ; Sept. Rs. 6-5-6 ; May (1942) Rs. 6-11-6. Tone : Irregular.

Wheat.—Cawnpore Ready Rs. 5-0-0 ; Sept. Rs. 5-0-6 ; May (1942) Rs. 4-15-6. Tone : Easier.

Shellac.—The Calcutta Shellac Brokers' Association :—

T.N. Rs. 55 done ; ST.I. Rs. 56 value ; I.T.N. Rs. 54 value ; 12 per cent T.N. Rs. 54 value ; Fine and Superfine Rs. 58 to Rs. 60 value ; Seedlac Rs. 42 value ; ordinary Rs. 45 value fine Bysakhi ; Kirilac Rs. 3 value ; Sticklac—Singapur Rs. 31 value ; Rangoon Rs. 30 value ; Assam Rs. 32 value. Shipments—52,025 chests up to July 25.

Market tone : Quiet.

Flour.—(Messrs. Kassim and Ismael) :—

Patent Flour Rs. 7-10 ; Superfine Flour Rs. 7-6 ; Household Flour Rs. 7 ; Flour No. 4 Rs. 6-10 ; Soojee Rs. 7-6 ; Atta B. Rs. 7-2 ; Atta 2 Rs. 6-9 ; Atta S. Rs. 6-9 ; Atta K. Rs. 6 ; Atta 3 Rs. 5 ; Pollard Re. 1-13 ; Bran Re. 1-12—Per maund ex-mills.

Market tendency: Steady at the current increased rates.

Salt.—(Messrs. Kassim and Ismael):—

	Ex. Ship Mds.	Ex. Ship Rate per% Mds.	Ex. Govt. Golah Mds.	Ex. Govt. Golah Rate per% Mds.
Port Sudan Kurk	—	—	—	140
Port-Said Crushed	—	132	—	—
Port-Said Washed Crushed .	—	135	—	—
Indo-Aden Fine	Pty.	132	—	—

Market tendency: Steady at the current reduced rates.

Iron and Steel.—(Messrs. Balmer Lawrie and Co., Ltd.):—

R. S. Joists ...	...	...	Rs. 22-0
M. S. Angles	...	...	,, 22-8
M. S. Tees ...	...	...	,, 24-0
M. S. Plates	...	...	,, 24-0
Round Bars	...	...	,, 22-8
Flat Bars ...	...	...	,, 22-0

G. C. Iron—Tata "Palm Tree" Brand 24 Gauge Rs. 26 per cwt.; do. 22 Gauge Rs. 26 per cwt.; Wire Galvd. Barbed (112 lbs.) Rs. 31 per cwt.; Copper Rs. 68 per cwt.; Pig Lead Rs. 23 per cwt.; Penang Block Tin Rs. 218 per cwt.; Antimony Rs. 90 per cwt.; Hoyts Antifriction Metal "3 M" As. 15-6 per lb.; do: "Star" Re. 1-2-6 per lb.; do. "No. 11 Alloy" Rs. 3-15 lb.; do. "I.C.E." Rs. 3-3 per lb.; Lead Sheets (1/6″) Rs. 50 per cwt.; Zinc Ingots—(Purity 99·95 per cent) Rs. 58 per cwt.; Antex Wood Preservative Rs. 3 per gallon; A.C.C. Indian Portland Cement—Swastika and Castle Brands Rs. 37 per ton (full wagon load) for Calcutta; Gillingham Portland Cement (English) Rs. 12 per drum for Calcutta; Snowcrete White Portland Cement in Rs. 29-8 and Rs. 16 drums.

All prices are nominal market rates.

Karachi Markets

KARACHI, *July*.

The following are prices in the Karachi markets to-day:—

Wheat.—Ready Rs. 33-6; July Rs. 33-5; Sept. Rs. 33-14. The price for September delivery touched Rs. 33-8, in sympathy

with the weakness of the cotton market. Prices turned steadier owing to Punjab commission houses buying.

Flour.—Ready Rs. 15. Steady.

Gram.—Ready Rs. 31-6-0 ; July Rs. 31-0-5 ; Sept. Rs. 31-11. Steady.

Cotton.—Sind Ready Rs. 16-10 ; Jan. Rs. 17-14 ; Punjab Ready Rs. 14-8 ; Jan. 15-2 ; 4F Jan. Rs. 30-6. Tone.—Weak owing to Japanese liquidating.

Calcutta Tea Sales

The Calcutta Tea Brokers' Association in their Sale No. 1, held on 12th and 13th June, 1945, state:

Consumption in India

At the opening Sale of the Season, 12,000 packages of New Season's Leaf Teas were offered, and these included a useful selection of Dooars teas. Except for Darjeelings, which met with good competition and realised satisfactory rates, demand was restricted, and the majority of lots were taken out at bids which were As. 3 to As. 4 below Brokers' valuations. After the Sale, Sellers met the market to the extent of As. 3 and, at this level, practically all bid lots were sold.

Dusts

The majority of the offerings sold at from As. 2 to As. 3 below Brokers' valuations, best kinds and powdery sorts being the strongest features.

Quotations

Common B.P.S.	... ...	As. 11
Do. B.P.	... ...	,, 11
Do. Pekoe	... ...	,, 11-6
Clean Dust	... ...	.. 12-6

All subject to Excise Duty.

CROP.

The Northern Indian Outurn totalled 19·6 million lbs. to the end of April, 1945, against 19·5 millions for the same period last year.

QUOTA

Export Quota.—Early in the month of May, the market opened at 10 pies per lb. and gradually improved to 1 anna per lb. In the middle of the month, there was a general demand for large quantities of both 1944-45 and 1945-46 seasons Export Quota for covering the extra tea offered to the Tea Controller, and, consequently, the price increased sharply to As. 1·3 and As. 1·6 per lb. Buyers, however, were able to fulfil their requirements within a few days and, in the absence of further demand, the market became weak, and the price declined to As. 1·3 and then to 1 anna per lb. at which rate a limited amount of business has been transacted.

Bombay Cotton

BOMBAY, JULY............

The Bombay Cotton market opened easy, and advanced on offices buying and covering. Later, prices declined on speculative selling on the weakness of Oomras but recovered again on buying on the reaction theory. The session closed steady.

The following are the quotations:—

	Last Closing	To-day's Opening.		Closing. Prices.
Bengal—				
Dec.-Jan. ...	Rs. 149-0	147-0	147-8	151-8
Oomra—				
Dec.-Jan. ...	Rs. 197-8	195-8	196-8	200-0
Broach—				
July-Aug. ...	Rs. 243-8	241-8	242-0	246-8
April-May ...	Rs. 272-8	270-8	271-0	276-0

Sewri Room Rates.—Broach July-Aug. Rs. 246 ; do. April-May 1942 Rs. 272 ; Oomra Dec.-Jan. Rs. 197 ; Bengal Dec.-Jan. Rs. 150.

New York Advices.—Messrs. Chunilal Mehta and Co., have received the following cabled information from New York:—

Market opened weak on unfavourable overseas advices. Later, market advanced on trade and speculative buying. Market is steady.

Calcutta Market Prices

The following are current prices of agricultural produce in the Calcutta market on July . . . as issued by the Marketing Department, Bengal Government:—

Produce.—Wheat (Chandausi) per md. Rs. 5; Special Agmark Ata per md. Rs. 6-10; Agmark Chakki Ata per md. Rs. 5-15; Paddy—Banktulsi per md. Rs. 4-5 to Rs. 4-7; Paddy—Patna per md. Rs. 4-2 to Rs. 4-8; Paddy—Mota per md. Rs. 4-14; Rice—Banktulsi per md. Rs. 7-8; Rice—Patna per md. Rs. 6-13 to Rs. 7-6-6; Rice Mota per md. Rs. 6-4; Mustard oil—Ordinary per md. Rs. 14-4 to Rs. 15; Mustard oil—Agmark Graded per md. Rs. 15-8 and (retail) Re. 1-2 (per tin of 2½ seers); Ghee—Ordinary per md. Rs. 50 to Rs. 72; Ghee—Agmark Graded Rs. 64-6 to Rs. 69; Sugar—No. 1 per md. Rs. 10-12; Sugar No. II per md. Rs. 10-10.

Milk (Cow) seers per rupee 5 seers; Eggs—Hen per score—Graded (A) As. 14, (B) As. 12, (C) As. 10, (D) As. 8; ungraded As. 9; Eggs—Duck per score—ungraded As. 8; Potatoes (Deshi Nainital) per md. Rs. 7-8; Potatoes per seer (retail) As. 3-3 to As. 3-6; Fish—Hilsa per md. Rs. 12 to Rs. 15; Fish—Rohu per md. Rs. 25 to Rs. 28; Fish—Chingri per md. Rs. 15 to Rs. 18.

Fruits—Banana (Sabri) per doz. (retail) Rs. 4-6; Banana (Singapore) per doz. (retail) As. 2-6; Apples (Nainital) Rs. 10 per basket of 150 and 14 per rupee; Mangoes (Fazli) Rs. 3-8 per basket of 35 and 6/8 per rupee; Mangoes (Brathua) Rs. 2-8 per basket of 120 and 25/30 per rupee; Oranges (Ahmednagar) Rs. 2-4 to Rs. 2-4-4 doz. and 12 per rupee; Pineapples (Assam) per 100 Rs. 25 to Rs. 30 and 2/3 per rupee; Pineapples per 100 Rs. 7-8 and 8/12 per rupee.

"Quiet" means that the market is rather dull, as against "steady" meaning that prices are remaining at same level, or "firm" indicating that prices are tending to rise. "Easier" is also used to mean the same thing as "quiet".

"Ready" means that the commodity is transacted for spot delivery. August, September, October, July, January, etc., denote that the purchases made are to be delivered on the months indicated against them.

In Jute Futures market the price quoted is per bale of about 7 mds.

When prices rise on "Covering," it means that speculators are buying in order to cover some sales which they have already made.

Questions

1. What is meant by business exchange? Show how business is carried on at exchange generally or at a particular exchange. State the advantages that the business exchange confers on merchants and dealers. (B. Com. Cal., 1926.)
2. What is a Produce Exchange? Explain some of the beneficial points of speculation. In what respects does it differ from gambling? (B. Com. Cal., 1937.)
3. What is a Market? Distinguish between (*i*) a Market for Commodities, and (*ii*) a Market for Securities. Explain briefly the important factors that have contributed to the development of the modern Market. (B. Com. Cal., 1938.)
4. Mention some of the methods by which a trader usually indicates quality of goods which he desires to purchase. (B. Com. Cal. 1923.)
5. Discuss critically the Jute Futures Market in Calcutta.
6. Describe the working and constitution of at least two Produce Exchanges in India.
7. Can you describe fully the normal procedure through which the marketing of any one of the following commodities takes place in Bengal, namely, jute, tea and potato? Indicate the functions that each intermediary trader renders in the process of transfer from the producer to the ultimate consumer. (B. Com. Cal., 1945.)

CHAPTER XXV

STOCK EXCHANGES

A stock exchange is a market for the sale and purchase of shares and stocks. There are now several stock exchanges throughout the world, which are inter-connected with one another by modern methods of communication. Any stock or share also tends to command a world market, and as such is dealt with in the floors of various stock exchanges.

Economic Significance

The stock exchange plays a very important role in the modern economic system. It is a very important institution for the mobilisation of savings and capital of the society. People generally pass on their savings and money to be utilised as capital in modern industry and commerce through the medium of shares and stocks by way of investment. The stock exchanges provide markets for these shares and stocks, and thereby impart to them the fundamental quality of marketability and liquidity. The stock exchanges have thus given good markets for invested capital, and facilitated savings. People are now more willing to invest in shares and stocks, as they are easily realisable and marketable at true values, which are determined according to their interest-earning or dividend-yielding capacities.

New York Stock Exchange

The New York Stock Exchange is a private and voluntary association consisting of 1375 members. A non-member may become a member by buying a seat from a deceased or retiring member, provided his membership is approved of by the Committee on Admissions. Membership is representative of influential interest ranging from business to capitalists. Some big capitalists become members to deal in only for themselves. They become members because thereby they can do business through brokers at a cheaper rate of commission. A corporation is never

allowed to become a member. No person is admitted as a member unless he is financially very strong and his condition is above reproach.

Management

The stock exchange is managed by its Governing Committee consisting of forty-two members, each governor holding office for four years, and ten governors are re-elected from amongst the members every year. In addition, there are President, Treasurer and Assistant President. There are several sub-committees of the Governing Committee exercising various functions. Certain functions are delegated to different corporations, all stocks of which are held by governors on behalf of members acting as trustees. Thus, for example, the Stock Clearing Corporation is under the charge of supervising the exchange contracts ; the New York Stock Exchange Building Company is the owner of the fixed assets of the New York Stock Exchange ; the New York Stock Exchange Safe Deposit Company arranges for the safe custody of the documents of the members of the exchange.

Dealers and Brokers

Members of the New York Stock Exchange can act either as brokers or traders, or as both. Some big capitalist members act only on their own account. Other members may act sometimes as brokers or traders as the case may be. But in the same transaction, one cannot act both as a trader and as a broker. This combination of both functions by members is not allowed in the London Stock Exchange, where a member is consistently either a dealer or a trader. When members act as brokers, they are entitled only to brokerage as remuneration. They are not allowed to take any difference between the buying and the selling price of the stocks or shares, when acting as brokers.

Sometimes a broker member may act through another brother broker, and he is then called an under-broker, and is

entitled to a brokerage of two dollars per 100 shares. This kind of an under-broker is called a *"Two Dollar Broker"*. Those members who act only on their own account are known as *"Room Traders."* The majority of members are generally both members and brokers.

Transactions

Every transaction on the New York Stock Exchange must be settled daily. Generally a broker always demands from his prospective client a margin varying from 10 to 50 per cent. of the price of the security, and when its value rises, the broker pays the difference to his client after deducting his own advances. If prices go down, and the margin does not cover the difference, further margin is demanded. In case it is not forthcoming, the broker sells the security and covers himself. This type of doing business by depositing margin has encouraged speculation on the stock exchange. The New York Stock Exchange is mainly concerned with American stocks and shares. Other securities are, however, occasionally dealt with.

Business is done between 10 A.M. to 3 P.M., and anybody doing business outside these hours is subjected to a penalty of 50 dollars.

Paris Stock Exchange

The Paris Stock Exchange is technically known as *Bourse,* and is distinct from other stock exchanges by the fact that it consists of two sections, namely (i) the Stock Exchange dealing in securities of France and other countries, and (ii) the Commercial Exchange dealing in commodities, no actual commodity being exhibited at the time of transactons.

Unlike other Stock Exchanges, the Paris Stock Exchange is very largely state-controlled. There are seven hundred members who are licensed by the Government to carry on business, either as brokers or as dealers, or as both. When they do business in the dual capacity of a broker and trader, they are required to deposit with the Government a sum of 1,25,000 Francs, on

which interest at the rate of 4 per cent. is allowed. At the time of retirement, a broker may sell his office and transfer his deposit to the intending buyer. These brokers are also appointed by French Courts to act as Trustees for the sale of securities.

Business is conducted between 11 A.M. and 3 P.M., but unofficial business may be done outside these hours.

Forward, delivery and account transactions are permitted on the Paris Stock Exchange as in the London Stock Exchange. There are also contango, backwardation, option and margin systems in the Paris Stock Exchange.

In addition to this official stock exchange, there are other private stock exchanges in Paris, in which members transact business in securities according to their own rules and regulations. In these private exchanges, the members are technically known as *Bankers*.

Berlin Stock Exchange

The Berlin Stock Exchange is also known as the Berlin *Bourse*. It is also state-controlled, and its transactions are regulated by the rules of the Government. Any kind of speculation is severely discouraged by the Government.

The constitution of the Berlin Bourse is very democratic in character. There is no restriction on membership, which is allowed subject to Government approval. Any person can become a member, provided he is supported by at least three existing members, and the members who propose a new member must guarantee for him a sum of 5,000 Reichsmarks. It is not necessary for a member to be a rich person. Generally importance is attached to capability and honesty. There is no entrance fee nor is there any fixed annual subscription. The practice is for every member to pay an annual fee adjusted according to his volume of business. Every firm is also required to pay a certain sum of money every year for each of its partners who can go inside the Exchange, and also for every authorised clerk or assistant.

Business is generally done between 12 A.M. to 2 P.M., but another thirty minutes are allowed after closing the exchange to members to transact business.

The transactions of the Berlin Bourse are strictly regulated by Government rules and regulations. Any orders either to buy or to sell securities are usually settled at official prices which are fixed for each day according to conditions of demand and supply. This system of price fixing safeguards the interests of the public to the fullest possible extent.

London Stock Exchange

The London Stock Exchange is one of the most important of its kind in the world. Originally established in the early part of the nineteenth century, it was reorganised in its present form in 1886. The London stock exchange may be more aptly called a collection of several markets, because the Stock Exchange consists of different sections dealing in different securities, each constituting a market by itself.

There is a dual control in the management of the London Stock Exchange. The control over finances, including fixing of entrance fees and annual subscriptions is vested in an executive *body of nine members, elected* from amongst the members, and three of whom retire every five years. The *Committee for General purposes* is practically in charge of the management of the stock exchange. The Committee consists of thirty elected members on an annual basis. The Committee frames all rules and regulations for guiding the conduct of members as well as all transactions. In matters of any dispute arising amongst members, it is generally referred to this Committee, and no member can go to a court without the previous sanction of the Committee.

Members

There are two types of members, namely *Brokers* and *Jobbers*. Brokers are those members who buy and sell on behalf of the public, and are remunerated by way of commission or

brokerage. Jobbers refer to those members of the stock exchange who actually buy and sell shares. They cannot deal directly with the public, their transactions are all confined to only members of the stock exchange. A jobber must not enter into partnership with a broker. A jobber generally makes profits by the differences in prices of his purchases and sales.

The jobber is a distinctive feature of the London Stock Exchange. The broker is purely in the nature of a middle man and always acts through a jobber ; whereas a jobber acts entirely for himself. The jobber is often prepared to buy and sell stocks and shares at any given time. So, when he is approached for any price quotation for any security, he generally quotes both his buying and selling prices, and there is a very narrow margin of difference between his buying and selling prices, because he never knows whether the enquirer will turn out to be a buyer or a seller. By thus quoting a "double-barrelled" price as it were, for a security, the jobber tends to make prices of securities steady. In other exchanges, speculation very often causes high or low prices and wild fluctuations are visible. But such wild breaks in prices are rare in the London Stock Exchange because of the jobber who is always quoting both selling and buying prices. If securities go up the jobber starts selling and vice-versa, and thereby prices tend to be steadier. The difference which exists between the buying and the selling prices of a jobber is technically known as the "Jobber's Turn."

In addition to these members, there are authorised clerks of stock-brokers who are allowed to transact business in behalf of their principals, whereas the unauthorised clerks cannot do so ; they are, however, entitled to enter the stock exchange in order to assist their principals.

Outside Brokers

There are a few dealers in shares and stocks who are not members of the stock exchange. They do business from outside the stock exchange, and are not bound by rules and regulations of the latter. They more often than not attract good clientele

by advertising, which is not allowed to members of the stock exchange.

Conditions of Membership

Any applicant for membership of the London Stock Exchange should apply to the Committee for General Purposes, accompanied by three guarantors who must be existing members, each offering a surety of £500 each in case of default of the new member to meet his obligations within four years of admission. In case of an applicant who has worked for four years either in the House or in the Settling Room with three years' work in the House at all events, two guarantors each standing surety for £300 are required. Such a clerk can be a member with one share only, whereas others must have three shares. Barring a few exceptions, the nomination of an applicant must be recommended either by a retiring member or the representative of a deceased member. All members must be re-elected every year and this enables the Committee to control the conduct of members. A new member must pay an entrance fee of 600 guineas, and an annual subscription of 100 guineas, whereas a clerk in case he becomes a member pays 300 and 60 guineas, respectively.

The rules and regulations of the stock exchange are so framed as to maintain intact the integrity, and honesty of members regarding their dealings in the exchange.

Members may be suspended if they fail to abide by the rules of the stock exchange. If a member defaults to meet his obligations he is *"Hammered"* and posted as a defaulter. "Hammering" is a very old practice which consists of an officer of the Exchange mounting a rostrum on the floor of the House and sounding with a hammer more or less in the manner of an auctioner. After attracting the attention of the members in this way, the defaulting member's name is posted.

Settlement

Transactions on the stock exchange may be *"Cash,"* when dealings are to be completed by actual delivery of securities in

exchange of cash payment, or for "Account," in which case the completion of a deal is postponed till to the next "Account" Day.

A fortnight is usually termed as an *"account."* Generally, settlement takes place at intervals of a fortnight, when all transactions during the fortnight should be squared up. A settlement generally lasts four days. *Contango Day* or the first day refers to the date when the parties to any deal mutually decide whether the business is to be closed for cash, or to be deferred to the next settlement. In so postponing to close the transaction, a buyer needs to pay a charge to the seller for the period of postponement, and this charge is technically known as *"Contango"*. Similarly, when a seller fails to give delivery of his security, he is liable to pay a charge to the buyer for the period of postponement, and it is known as *"Backwardation."* The second day of the settlement is called the "Ticket" or "Name" day, because on this date the broker has to hand over to the jobber with whom the deal has been made, the Ticket, giving the name of the actual buyer or seller. The third day is called the "Intermediate" Date, when relevent documents are made for completing the deal. The last or fourth day is the "Settling" or "Account" Day, when the transaction is finally completed, or arrangement is mutually made to carry it over to the next settlement.

Since all transactions in the London Stock Exchange should be completed either for cash, or at best can be postponed till the Account Day, wild speculation is not feasible. Charges like contango and backwardation discourage postponing the closing of deal from one settlement to another. Hence, the prices of securities on the London Stock Exchange tend towards moderation and steadiness.

The Stock Exchange List gives all prices of transactions done in the stock exchange. Generally the broker, after a transaction has been made between a jobber and an outsider through him, sends *Contract Bought Notes* and *Contract Sold Notes* to parties concerned confirming the transaction.

CONTRACT NOTE

A Smith, Esq., June 6th, 1940.
Court Road, London, E.C. 2.
Bought for H. Edwards, Esq., Manchester.

300 Indian Copper Corporation shares @ 1*s*. per share .. £15
Commission @ ½ per cent. and Stamp .. 11s.

For June 10th, 1940.

Stock Exchange Clearing House

The Clearing House is conducted more or less on the same lines as the Bankers' Clearing House. Members send their lists to the Clearing House, giving details of all transactions. Generally, purchases are given on one side, while sales on the other. The clerks check these dealings and issue tickets to members for the balance of the securities which they have to deliver. The Clearing House is concerned with securities which are widely dealt in. All members may not be necessarily members of the Clearing House.

"Carrying Over" and "Making-up Price"

Very often a speculator who buys a security postpones the acceptance of the delivery by paying cash from the contango day to next fortnightly settlement. He does this by carrying over or continuing his bargain. This happens in two cases, (a) when he buys a security in the hope that there will be a rise in its value so that he can sell it at a profit, or (b) when he sells a security expecting that its price will fall, so that at the time of delivery he will buy one at a lower price and deliver it but in both cases his expectations may go wrong compelling him to resort to carrying over. Regarding these transactions an official of the stock exchange on the first settlement day fixes a "making-up" price which is the actual mid-day market price, as the basis upon which the prices of carryings over are calculated.

'ape Prices

The Exchange Telegraph Company installs and operates in the offices of its subscribers a machine which reproduces on strips

of paper called "Tape" the current stock exchange prices throughout the day as several transactions take place. Thus, any person can see from the "Tape" coming out continuously from the tape machine the prices of all deals as they are transacted on the stock exchange.

Calcutta Stock Exchange

The "Calcutta Stock Exchange Association Ltd.", was registered as a limited company in 1923 with a share capital of Rs. 3,00,000 divided into three hundred shares of Rs. 1,000 each. No member can hold more than one share, and as such the membership of the stock exchange is limited to 300 members.

Management

The Calcutta Stock Exchange is managed by a Committee, consisting of fourteen directors elected from amongst the members of whom half the number longest in office must retire every year, but are eligible for re-election. No stock-broking firm can have more than one director on the committee. It is further provided that out of these fourteen directors, four should be Europeans, four Bengalis, four Marwaris, and the remaining two of any other Indian community. The committee is the executive of the stock exchange, and is in charge of framing rules and regulations for controlling the conduct of members as well as all transactions. In case of disputes arising between members, they are settled by the committee, whose decision is finally binding on members. To lodge any complaint before the committee a fee of Rs. 16 is to be paid. The President of the stock exchange is the Ex-officio Chairman of the committee, and elected by the latter.

Members

There are three hundred members and all of one kind. They can appoint authorised agents who cannot, however, make any contracts except in behalf of their principals. The agents thus appointed are allowed to enter the exchange on paying a fee

of Rs. 500/-. Every member as well as agent must pay a monthly subscription of Rs. 4/-.

Rules and regulations are aimed at maintaining a high degree of honesty amongst the members. If any seller of security fails to deliver his goods, the committee will give him seven days' time, failing which with two days' notice the buyer will be given an option of either cancelling the contract, or buying the contracted security from the open market at the risk of the defaulting seller who must pay the deficit, if any. In case any member defaults to take delivery of a share, the committee will usually allow him seven days, after which the seller can auction the share at the risk of the defaulter with the previous permission of the committee and the defaulter must pay the deficit, if any.

A member may be marked also as a defaulter if any of his dues remains unpaid. A defaulter's name is posted on the notice board, and he is not allowed any privileges of a member as long as he remains so.

Transactions

In the Calcutta Stock Exchange, all transactions are generally made on cash basis, that is to say, all deals are to be completed by actual delivery and cash payment on the second day or the day after, at or before 4 P.M. from the date of the contract. Forward delivery contracts are also allowed. Though option dealings are not allowed, members do surreptitiously indulge in them.

In spite of cash delivery system, speculation is more indulged in here, and price fluctuations tend to be violent in the Calcutta Stock Exchange. This is due to the fact that the cash delivery system is obeyed more in the breach, and members indulge frequently in backdoor methods, which encourage speculation and gambling. People are allowed to deal in the stock exchange by paying differences in prices. People generally buy a share and sell the same again on the third day and square up the deal by paying the difference in his buying and selling

prices—if prices go in his favour he receives the difference. This method obviates the need of actual delivery of shares for cash, and thereby encourages the predatory and speculative instincts of dabblers in the stock exchange. Since the members more often than not indulge in this sort of practices, the Calcutta Stock Exchange is partaking more of the nature of a speculative market.

It should be carefully noted here that members of the Calcutta Stock Exchange must deal only with members inside the exchange, and all contracts made there should be between members. The members in dealing with the outside public must enter into separate contracts with the latter. Thus, if a member is buying or selling a share in behalf of an outsider inside the market, the name of the outsider is not disclosed, and inside, the members will close the transaction between them by a contract, and then the member concerned will make a separate contract with the outsider. Thus, there is a chance of the member to charge from the outsider a different price than that contracted for, inside, with another member, if he so desires, because the outsider has no means to verify at what price actually the deal was made inside the House. This is different in the London Stock Exchange, where a broker in acting in behalf of his principal must reveal the name of the latter to the jobber with whom the broker proposes to deal. This safeguards the interest of the outside public.

Be it noted here that since members can only deal with members, any member in dealing with a non-member can do so only in the capacity of a broker.

The stock exchange remains open from 11-30 A.M. to 5-30 P.M. In order to become a member of the Association, one must buy a share and pay an admission fee of Rs. 5000. Though the par value of a share is equal to Rs. 1,000, its market value is now about Rs. 85,000. The shares are paying because they yield good dividends.

A member of the stock exchange is not allowed to advertise for business purposes.

EXTRACTS FROM THE BYE-LAWS OF THE CALCUTTA STOCK EXCHANGE ASSOCIATION, LIMITED.

Cash Delivery

Contracts entered into for cash transactions shall be for delivery on or after the second working day after the date of contract and at or before 2 P.M. on that day.

Holidays

In the event of a due date falling on a Stock Exchange Holiday shares must be taken up on the day preceding the due date.

Delayed Deliveries

The rule as to cash transactions shall be deemed as binding on both buyer and seller and failure on the part of a seller to deliver must be reported to the Committee, who shall decide whether proper reason for the non-delivery has been given; such as subdivision of scrip or non-receipt of scrip or transfer deed from up-country. The Committee, if it so decides, may then after two days' notice being given to the defaulting member by the Secretary allow the buyer the option of "Buying the shares in the open market at the risk of the seller."

Shares Stopped

Shares, the circulation of which has been stopped are a bad delivery.

Schedule of Brokerage

The following brokerage charges have been determined:—

On 3 per cent. and 3½ per cent. Government Paper $\frac{1}{16}$ p.c.

On other Government Securities ... ... ⅛ p.c.

(*N.B.*—The minimum charge for brokerage on Government Securities is Re. 1)

On Municipal and Port Trust Debenture and other Trustee Securities ¼ p.c.

On Joint Stock Debentures ⅛ p.c.

All shares of the nominal value of Rs. 75 or over.	One rupee per share up to Rs. 200 consideration money. Above Rs. 200 consideration money, eight annas for every 100 rupees (or part thereof) of the total consideration.
All shares of nominal value, below Rs. 75.	"Two annas per share up to Rs. 5 consideration money. Four annas per share up to Rs. 50 consideration money. Above Rs. 50 consideration money, eight annas per share, Re. 1 per share above Rs. 100 up to Rs. 200, consideration money. Eight annas per share for every 100 rupees (or part thereof) of the total consideration."

Sterling shares are to be calculated on the basis of 1*s.* 6*d.* Exchange.

Brokers found dealing direct with constituents otherwise than according to this Schedule will be dealt with according to Article 21 (7).

Auction Sales

Application for permission to hold an auction sale shall be addressed to the Committee, who will appoint a member of the Association to decide as to whether the proposed auction is a *bona fide* sale against a defaulter. For the purpose of arriving at a decision on the point, the member so nominated may call for such reasonable proof, documentary or otherwise, as he may deem necessary. If the nominated member is satisfied that the auction is a *bona fide* sale against a defaulter it shall be allowed to be held.

(*c*) No notices or advertisements of any auction sales except those authorised shall be allowed to be exhibited in the Rooms of the Association.

Hours of Delivery

Delivery of shares must be made by 2 P.M.

Hours of Returning

Return of shares with any objection, which must be in writing, must be made by 3 P.M.

In case of returning shares under objection, where delivery is effected in more than one lot, only the lot objected to may be returned provided it is a deliverable lot. The remaining lot must be accepted and paid for.

A bell will be rung at 3 o'clock announcing that no shares are to be returned after that under any objection whatsoever.

Re-delivery

Shares returned under an objection cannot be delivered again the same day.

Mutilation

Shares with an objection for mutilation cannot be returned if the buyer has accepted the same by passing them on to his buyers.

Definition of Mutilation

The following shall be deemed to be instances of serious mutilation:—

(*a*) The seller's signature is either torn or defaced in such a way as to render same illegible, or in any way objectionable for transfer, or circulation in the market in the view of the Committee.

(*b*) The witness's signature is either torn or defaced in such a way as to render same illegible, or in any way objectionable for transfer or circulation in the market in the view of the Committee.

(*c*) The deed is torn through and through.

(*d*) The Scrip is badly torn so as to render the number, Managing Agent's etc., signature or any other necessary particulars illegible.

(*e*) The Scrip is torn through and through.

Where a material portion of a deed has been torn or cut off the delivery is bad, but if the portion cut off is only part of the margin of the paper the delivery is not *ipso facto* bad.

Receipts for Deliveries

The seller may insist on a written acknowledgment from the buyer for the delivery of Scrip and the buyer must then grant the same.

Contributory Shares

The buyer's name must be inserted on the Transfer Deed of all Contributory Shares.

In the case of all sales of securities upon which any liability subsists, the purchasing member shall be responsible for the fulfilment of such liabilities unless and until the transfer of the securities is registered in such manner as to relieve the vendor of the securities from such liability.

It is resolved by the Committee in the meeting held on 27th January, 1944, that the sellers are to deliver the Transfer Deed to the buyer within a fortnight of the receipt of the buyer's name from the buyer, in default whereof the buyers will be entitled to return the Scrip as "bad delivery".

Transfer of Contributory Shares

Buyers of Contributory Shares should have the same transferred in their own or the buyer's name within 30 days from the date of delivery. The buyer shall be liable for all the calls, etc. from the date of purchase.

Transfer Deeds Signed by Defunct Firms or Persons

Transfer Deeds signed by a Company, Bank, Firm, Etc., which has since gone into liquidation or ceased to exist, or by a person since deceased, or declared insolvent, or lunatic are not good for delivery. During the pendency of liquidation proceedings shares can be sold on filled-up deeds provided they are signed by the liquidators.

Return of Bad Deliveries

Bad deliveries may be returned at any time subject always to the right of the Committee to decide that shares may not be returned if a long period has elapsed since delivery and the seller has been prejudiced by the delay.

Such shares, as have been accepted and paid for, can be returned as Bad Delivery up to 3 P.M. on a working day with delivery.

From 1st April, 1942, the Committee of the Calcutta Stock Exchange Association will not entertain any claim against a seller in respect of shares delivered more than one year before.

Signature of Transfer Deeds

The ordinary signature of a shareholder on a Transfer Deed should be accepted irrespective of whether his full name or initials appear on the Scrip.

A scrip bearing a shareholder's name in full, or with his initials, and having a Transfer Deed attached to it which bears an ordinary signature of the holder, must be accepted as good, irrespective of whether the shareholder has signed the Transfer Deed using all or any one or more of his names or initials.

A lady's signature in the vernacular on a Transfer Deed must be witnessed by a Notary Public or Magistrate, and Court Seal affixed.

The name of a member of the Stock Exchange, his occupation and address must not appear on a Transfer Deed except as the buyer or seller of the shares, or for the purpose of cancelling stamps or as a witness.

A buyer may accept torn Scrip with a deduction for renewal but he is not under any obligation to do so.

Incomplete Bills

If any shares are delivered with an incomplete bill, the buyer is entitled to return the delivery to his seller.

Bills, which contain *bona fide* mistakes only, can be rectified after delivery hours.

A bill will be incomplete in the following cases:—

(1) If it is not clear and legible.

(2) If it omits the name of the creditor or the debtor.

(3) If it omits the quantity of shares with their description and the price per share.

(4) If it omits the value of the stamps.

(5) If it omits the distinctive numbers of the shares.

(6) If it omits the signature of the seller, both buyers and sellers must scrutinise bills and shares at the time of delivery. Any unnoticed error in the bill should be brought to the notice of, and corrected by the sellers as soon after delivery as possible. Trifling objection regarding the bill should not be made an excuse for withholding payment and returning shares.

Delivery of Shares

Shares delivery within the proper delivery hours, as per Rules 6 and 7, if not in order, must be returned to the seller by 3 P.M., otherwise they must be paid for.

Payment

Cheques in payment of shares must be handed to sellers by 3-30 P.M. on the day of delivery.

Members shall have the option of refusing to accept cheques drawn by outsiders and negotiated by other members in payment of deliveries.

Seller not bound to accept cheque from the buyer other than the buyer's own cheque.

Delivery of Shares of Issue of Notice regarding Closing of Books of Companies on Calcutta Register

(A) In the case of shares sold cum-dividend, etc., deliveries may be made cum-dividend, up to* two clear working days before the closing of the book of the Company concerned pending the declaration of dividend.

* Definition of "two clear working days". Two working days in the Managing Agent's offices.

Deduction of Dividend of Shares of Companies on Calcutta Register

(B) In the case of deliveries made from the day before the books of the Company are closed to the day of opening of same, the buyer may deduct the amount of the proposed dividend which if altered will be subject to adjustment.

Deduction of Dividend of Shares of Companies Registered Outside Calcutta

(C) Shares of Companies registered outside Calcutta must be delivered "ex-dividend",

(*a*) 4 clear days for Companies on the Cawnpore Register.

(*b*) 5 clear days for Companies on the Bombay Register.

(*c*) 7 clear days for Companies on the Rangoon and Ceylon Registers of the Companies concerned and closed.

(*d*) 14 clear days for Companies registered in Federated Malay States.

(*e*) 7 clear days for Companies on Mysore Register.

Re: Time for Delivery of Shares of Companies Removed Outside Calcutta

In supersession of the resolution passed on the 30th of April, 1942, and in supplement to the Bye-law under the caption "Deduction of Dividends of Shares of Companies registered outside Calcutta", it has been resolved by the Committee in the meeting held to-day that deliveries of shares for companies that have offices outside Calcutta but within India, may be made Cum Dividend up to seven clear days before the closing of the Books of the Companies concerned pending declaration of dividend.

Exchange

Sterling dividends should be deducted at the advertised Telegraphic Transfer rate on the date of the payment of the dividend.

Construction Interest

Interest paid during construction is to be treated as though it were a dividend and transactions pass the rights to any accrued interest to the buyer.

(D) If the dividend is not deducted during the period the books of a Company are closed, in the absence of a notice where a delivery has passed it must stand.

Right to Dividend

The seller is entitled to dividend when the contract is entered into subsequent to the declaration of the dividend.

Cum and Ex-Dividend

Transactions in the shares of a Company effected on the date of the declaration of a dividend shall be considered as having been done "Cum Dividend" during the whole day unless otherwise specified at the time of business. From the following morning shares shall be dealt ex-dividend.

Ad-interim Dividends

Ad-interim dividend cannot be deducted from bills for value of shares before the actual day of payment of such dividends.

Inadequately Cancelled Stamps

Transfer deeds bearing stamps which are not adequately cancelled are not good for delivery.

Dividend Transactions

Disputes regarding transactions in dividends will not be adjudicated on by the Committee.

Cost of Transfer Stamps

The cost of Transfer Stamps shall be borne by the buyer.

Unstamped or Insufficiently Stamped Deeds

Stamps must be affixed to the Transfer Deeds by the seller before giving delivery to the buyer. Shares tendered with unstamped or insufficiently stamped Transfer Deeds are not a good delivery. As a rule whereby the buyer must pay the cost

of Transfer Stamps is already in existence, the seller should add the cost of stamps to his bill when giving delivery to the buyer.

Insufficiently Stamped Deeds

In the case of a Deed being insufficiently stamped, if the seller adjusts the stamps by 3 P.M., the buyer must accept delivery if the Deed is otherwise in order.

In case of a bad stamp affixed on a Transfer Deed and charged for by the seller but returned under an objection if the seller agrees to refund the value thereof by 3 P.M., the buyer must accept delivery if the Deed is otherwise in order.

Transfer Stamps

(*a*) A stamp bearing an incomplete rubber stamp impression is bad.

(*b*) Torn Stamps

(1) A stamp divided into two portions,

or

(2) A stamp, a portion of which is missing, is bad, unless such stamp bears the rubber stamp impression, partly on the Transfer Deeds and partly on the Stamp, of a recognized Bank or Insurance Company.

BUT a stamp falling under clauses (1) and (2) above may be passed as good provided that the perforations between it and another stamp, which is held to be good have not been torn or have not been separated in any way.

(c) A stamp of which the colour is washed out is bad, slight discolourations may be disregarded.

(*d*) A stamp which bears obvious marks of removal from another deed is bad.

(*e*) A stamp defaced by the rubber stamp of a limited company not ordinarily dealing in shares is bad unless (1) the impression is partly on the paper, (2) some satisfactory proof can be produced as to how the stamp came to be there.

Stamps and Dated Transfer Deeds

In the case of deliveries of dated Transfer Deeds the buyer is entitled to receive shares which can be transferred at the contract rate, and consequently if the quoted rate on the Transfer Deeds exceeds the contract rate the seller must pay the buyer the difference in the stamp duties.

Removed Stamps

No Transfer Deed is good if it bears stamps which in the opinion of the Sub-Committee were previously on other Transfer Deeds. In the same way no Transfer Deed is in order when it bears evidence of stamps having been removed.

Bad Stamps

Where the affixing of bad stamps on Transfer Deeds is traceable to any member the value of the stamps will be charged to such member, who will in addition be severely dealt with.

Stamps

Transfer Deeds of Shares must be stamped according to the rate in force in the locality of the Office of Registration.

Stamp Not Good for Circulation

If on any shares being brought before the Share Examination Sub-Committee, stamps are found to be not in order they are to be marked "Stamp not good for circulation" with a rubber stamp by the Sub-Committee, but if the party declares at the time his intention to appeal to the Full Committee and pays the Appeal Fee such defacement is to be withheld until the decision of the Full Committee is obtained.

Powers of Share Examination Sub-Committee

The Share Examination Sub-Committee decides particular points brought to its notice, but has complete power to point out any irregularities if it sees them.

Examination of Stamps on Transfer Deeds

1. A Special Sub-Committee appointed will examine stamps on Transfer Deeds. Out of the 7 members, 3 shall form a quorum.

2. Members may, if they wish, submit their shares for examination by the Sub-Committee on payment of Re. 1 per each Transfer Deed.

3. No appeal will be allowed against the decision of the above Sub-Committee.

4. The Sub-Committee will affix its stamp with an initial of one of the members on all good stamps. Bad stamps will be cancelled and likewise initialled.

5. Shares shall be submitted for examination before 1-30 P.M.

6. The stamps, which are declared good by the Sub-Committee, shall be accepted by all members as "In Order".

7. Shares submitted for examination shall be entered in a separate Register kept for the purpose and serially numbered.

Incomplete Transfer Deeds

Transfer Deeds in which the words "his executors, administrators and assigns" are left out after the words "to hold unto the said transferee" are not in order and are a bad delivery. But if a blank space be left after the words" to hold unto the said transferee" for the insertion of the words "his executors, administrators and assigns" the deed may be considered in order.

Alteration on Transfer Deeds

Any alteration on a Transfer Deed must be initialled by the seller.

Per Pro Signatures

Transfer Deeds signed by the authority of an Agent for the Registered Holder per pro are good for circulation in this market.

Revoked Power-of-Attorney

Transfer Deeds signed under a Power-of-Attorney are not good for circulation when it is known that the Power-of-Attorney has been revoked.

Transfer Deeds of shares signed by defunct concerns as Attorneys for their Principals are not good for circulation in their market.

Deliveries of Imperial Bank of India Shares

In the absence of any Special Contract, it is a good delivery if shares on the Calcutta Register are delivered or shares on the Bombay or Madras Register accompanied by a Transmission Form signed by the seller and provided also that the Transmission Fee be paid by the seller.

Deliveries of Reserve Bank of India Shares

The shares of the above Bank on Rangoon Register will not be a good delivery unless it is so stipulated expressly at the time of transaction.

Temporary Scrip or Receipts

Unless deliveries are accompanied with Scrip they are not in order, except in special cases as decided by the Committee.

Provisional Certificates

Provisional Certificates are not good delivery, unless for shares of the Barnagore Jute Factory Co., Ltd. Burma Corporation, Ltd., and British Burmah Petroleum Co., Ltd.

All deliveries of Burma Corporation shares should pass with unstamped Transfer Deeds.

Dates on Scrip and Transfer Deeds

When the date on the Scrip is more recent than that on the Transfer Deed, the reason for this should be stated on the Scrip by the Managing Agents, otherwise the shares are a bad delivery.

Increase or Decrease of Capital

Shares Scrips of Companies, whose capitals have been increased or decreased but which increase or decrease is not shown on the Scrips, are a bad delivery, unless the shares have been transferred after the date of the increase or decrease of capital, in which case they are in order.

Should the increase or decrease of Capital of a Company not be shown on the Share Scrip this would not constitute a bad delivery.

Interest on Government and other Interest Bearing Securities

When deliveries on Receipt of Scrip have been arranged for, the seller is entitled to interest for a maximum of 14 days for Government Securities and of 21 days for other interest bearing Securities from and including the date of contract. When a definite date is inserted in a contract, the seller is entitled to interest only up to and including the day before due date.

Cages on Share Certificates

Members are not entitled to refuse delivery of shares on the ground that there is no vacant cage left on the Scrip.

Deliveries of Government Securities

1. Existing arrangements regarding time of delivery and payment will continue.

2. A member is entitled to refuse delivery of Government Securities if there are less than two unused gates or cages.

3. Delivery of Government Securities may be refused by a buyer when interest has accumulated for 8 calendar months or over.

4. Buyers can demand sellers' endorsement on all notes.

5. If any contract is entered into for sale or purchase of Government Securities in which the delivery is to be made on Receipt of Scrip, the seller can deliver within 14 days after the

date of transaction failing which the seller will lose his right of claiming interest from the buyer for more than 14 days.

6. If the existing 14 days' grace ends on a Stock Exchange holiday or on a non-delivery day, delivery must be made on the last previous working day.

7. Sale Power Stamps are not necessary in case of endorsement by local clearing Banks.

Deliveries and Payment of Government Securities

1. Interest-bearing Securities are to be delivered up to 11-30 A.M. and the buyer must pay the cheque by 12 noon.

2. If interest-bearing Securities are delivered after 11-30 A.M. and up to 2 P.M., the buyer must accept and pay after Banking hours.

3. If a delivery of an interest-bearing Security is made under a "Ready" Contract on the due date, or under a "Receipt of Scrip" Contract before the last date of the option, the seller will not be entitled to that day's interest if he delivers either before or after 11-30 A.M.

4. If a delivery of an interest-bearing Security is made under a "Receipt of Scrip" Contract before the last date of the option, the seller will be entitled to the interest for the day if he delivers the paper after 11-30 A.M. For "Ready" transactions in Government Securities delivery may be effected by the seller on due date up to 2 P.M. charging that day's interest.

Interest on Payments on Government Security

In case of failure to make payments for Government Securities before Banking hours, the buyer will have to pay interest at Bank rate with a minimum of 6 per cent. on the amount of the Bill.

Renewal Fees

Renewal Fees must be paid if there are less than two endorsement or interest cages left.

The buyer is not bound to accept Government Securities due for renewal when renewal fees are paid by the seller.

Stops on Government Securities

In the case of Government or interest-bearing Securities on which a "Stop" has been placed either by the Public Debt Office, or Company concerned, the buyer is entitled to return the paper, or interest-bearing security to his seller who must either replace same immediately or refund their value, with interest accrued and further, in the latter case, the buyer is entitled to recover from the seller any loss he may incur in replacing the same.

Re: Endorsement on Government Papers

Members of the Association are strongly urged to take all reasonable precautions to see, when dealing in Government Securities, that the previous Endorser is a party of standing or one known to them and to insist in other cases, if there is any element of doubt, that the scrip is renewed before they accept it for Sale. In case of transactions with renewed scrips, members are urged invariably to take the precaution of satisfying themselves that the party selling them the note is the actual party in favour of whom the note was renewed.

Purchase of Government Securities on Committee's Order

The purchase must be completed by 1 P.M. on the day ordered for such purchase. If not available, the same must be reported to the Secretary immediately.

Unpaid Debenture Interest

When a Company has failed to pay debenture interest on due date, then any transaction in such debentures follows the ordinary market custom whereby all rights and privileges accrue to the buyer. Consequently unless expressly stipulated to the contrary at the time of sale, the seller can claim no interest either for the current period, or for the earlier periods, remaining unpaid.

Re: Payment of Interest on Sales of new issues of Debentures and or other new Interest Bearing Securities

The buyer is not entitled to interest if he has not paid for the securities or debentures in question. The buyer will be entitled to interest on and from the date he makes payment.

Quotation of Transactions and Listing of Companies

Application for quotation of individual transactions should be made to the Quotations Sub-Committee. The listing of shares is to be referred to the Full Committee.

Conditions for Listing

Before an addition to the Quotation List can be sanctioned and quotations allowed to appear in the column of Daily Transactions, the Committee will have to be furnished with the following documents for approval: —

(1) In the case of New Flotations, Articles of Association. Prospectus (if any) and any further information required by the Committee.

(2) In the case of Existing Companies. Reports for 2 years preceding (if in existence so long) and any further information required by the Committee.

Official Quotations

"No member, officer or servant of the Association shall directly or indirectly supply any information relating to the prices of Stocks, shares, Government Securities, etc., ruling in the Hall of the Calcutta Stock Exchange Association, Ltd., or relating to transactions of Stocks, Shares, Government Securities, etc., taking place therein to any person for publication in a Newspaper or Periodical. Any breach of this Bye-law by a member will make him liable to be dealt with under Article 21 (7) of the Regulations of the Association and such breach by any officer or servant of the Association will make him liable to be dealt with in such a way as the Committee consider advisable in their absolute discretion."

Regarding Lots in Share Transactions

In case of Shares Transaction where no mention is made at the time of transaction as regards lots, the lots are to be considered as follows:—

Rs.	500-0	Paid up—	5 Shares.
Rs.	100-0	Paid up—	25 Shares.
Rs.	50-0	Paid up—	50 Shares.
Rs.	25-0	Paid up—	100 Shares.
Rs.	10-0	Paid up—	100 Shares.
Rs.	5-0	Paid up—	100 Shares.
Rs.	2-8	Paid up—	100 Shares.

Rs. 100 share, of which Rs. 50 have been paid up, deliveries to be made in lots of 25 Shares.

Rs.	375-0	Paid up—	25 Shares.
Rs.	300-0	Paid up—	25 Shares.
Rs.	1-0	Paid up—	100 Shares.
£	10-0	Paid up—	25 Shares.
£	1-0	Paid up—	100 Shares.
£	5	Paid up—	25 Shares.
Sh.	8-0	Paid up—	100 Shares.

Rubber Shares of $ Paid Up—Delivery to be made in lots of 500 Shares.

Regarding Lots in Government Securities

Unless special arrangements are made when the transaction is put through, deliveries of Government Securities must be made in lots of not more than Rs. 25,000 each.

Lots for debentures will be the same as that of Government papers, namely, Rs. 25,000, unless otherwise provided in the contract.

Shares of Companies having both Indian and Foreign Registers

Unless otherwise stipulated at the time of transaction, the transaction will be assumed to be for shares on Indian Register only. In case of shares of Burma Corporation, however, the shares on Burma Register will be acceptable as good delivery notwithstanding the above resolution.

RULES & PRESCRIBED FORMS OF CLEARING SYSTEM OF THE CALCUTTA STOCK EXCHANGE ASSOCIATION LTD.

1. As from the 4th December, 1944, all transactions in shares selected by the Committee and listed in the Schedule annexed will be settled, and delivery effected through the Clearing House, which will be conducted on behalf of the Association by the Allahabad Bank, Ltd.

2. Clearing will take place on Monday each week and will comprise transactions from the Monday to the Friday preceding the clearing day, both days inclusive. If Monday is a holiday, clearing will be effected on the next working day but should there be more than two holidays in a week, the Committee will decide whether clearing is to be effected or transactions carried over to the next week.

3. In respect of each transaction in any of the shares listed in the Schedule, the selling member will deliver to the purchasing member, during working hours of the next business day, a Sold Note in Form "A". Similarly, the purchasing member will deliver to the selling member a Bought Note in Form "B". Each member will prepare a statement on Form "C" of his purchases for the week, a separate form being used for the shares of each company, and attach thereto the Sold Notes received. He will also list on Form "D" his sales of shares of each company during the period, attaching the Bought Notes received. All transactions will be summarized on Form "E" and this must be handed to the Clearing House, together with the statements of purchases and sales and the Bought and Sold Notes, before 11 A.M. on the clearing day.

4. Those members whose sales of any of the scheduled shares exceed their purchases must deliver to the Clearing House before 1. P. M. on the Clearing day the number of shares sold in excess of their purchases, attaching a list in duplicate, one copy of which will be signed and returned to

the messenger. Members whose purchases exceed their sales will receive the balance of shares from the Clearing House between 5 P.M. and 6 P.M. on the clearing day. Any shares not taken up by 6 P.M. will be presented to the members concerned, at their risk, before 11 A.M. on the day following, which will be known as Settlement Day.

5. The amount receivable or payable by each member will be credited or charged to his account with the Allahabad Bank before 11 A.M. on Settlement Day. The Bank reserves the right to withhold delivery of shares in individual cases untill payment is made.

6. Members may instruct other banks to take up their purchases from the Clearing House or to present shares for delivery. In either case a pay order for the amount due will be tendered or delivered by or to the Bank concerned, at the Clearing House, before 6 P.M. on the clearing day.

7. Should any member fail to take up the shares receivable by him, these will be sold on his account by the Committee in their absolute discretion, the proceeds being paid to the Bank. Members whose sales to the defaulting member exceed their purchases from him during the week will be liable to contribute *pro rata*, according to the amount of the difference, to any shortfall. They will be liable similarly to contribute in the event of any member failing to pay for shares delivered to him. In such cases the sums due will be debited to the accounts of contributing members with the Allahabad Bank. The Committee will see that the Clearing House have a first charge on the card value of any defaulting member.

Transfer Deed Stamps

8. The value of stamps recoverable in respect of shares delivered to the Clearing House should be shown on the list referred to in paragraph 4 but the amount, as regards individual items, will not exceed the duty chargeable on the value of the shares calculated at the closing price fixed by the

Committee at the close of business on Friday or, if that be a holiday, the next preceding working day. The cost of stamps to be received or paid by members will be added or deducted by the Bank to or from the amount payable or receivable as shown in the summaries in Form "E" and adjusted as stated in paragraph 5.

Objections

9. Shares received from the Clearing House which are the subject of objection must be returned to the Stock Exchange by 2 P.M. on Settlement Day. One or more members of the Committee will attend at that hour and will adjudicate in all cases of dispute. If the shares are held to be in order, the member concerned must accept them, otherwise they will be returned by the Clearing House to the member by whom they were lodged with a bill for the cost, calculated at the closing rate for that settlement as fixed by the Committee, the amount being charged to his account with the Allahabad Bank and credited to that of the member returning the shares.

10. Where shares taken up from the Clearing House are presented to the company for registration and found to be irregular, the purchasing member may apply to the Clearing House, if within one year from the date of the clearing in which they were received, for the name of the member who lodged the shares and the latter will, then, replace them by shares constituting a good delivery. Pending replacement the lodger will refund the value at the market rate.

SCHEDULE

Ordinary Shares of the following Companies:—

Burrakur Coal Co., Ltd.
Howrah Mills Co., Ltd.
Indian Iron & Steel Co., Ltd.
Steel Corporation of Bengal, Ltd.

Form A

Member's Name...................................

No................ Date.

SOLD NOTE FOR INDIAN IRONS

..............Shares @ Rs.............. Rs.

To

Dear Sir,

We have this day sold to you.........................Ordinary Shares of the Indian Iron & Steel Co., Ltd. @ Rs.................. per share, subject to the rules and usages of the Calcutta Stock Exchange Association, Ltd.

Yours faithfully,

Form B.

Member's Name...

No................. Date.............................

BOUGHT NOTE FOR INDIAN IRONS

..............Shares @ Rs.............. Rs..............

To

Dear Sir,

We have this day bought from you....................Ordinary Shares of the Indian Iron & Steel Co.,Ltd. @ Rs................. per share, subject to the rules and usages of the Calcutta Stock Exchange Association, Ltd.

Yours faithfully,

Form C.

Member's Name..

No.................. Date...................................

Statement of Indian Irons purchased by us as per Sold Notes attached for settlement on.........

Purchased from	Date.	Sold Note No.	Number of Shares	Rate.	Amount.

Rupees.................................... Total Rs.

Signature..

Form D

Member's Name..

No................. Date.................................

Statement of Indian Irons Sold by us as per Bought Notes attached for settlement on...........

Sold to	Date.	Bought Note No.	Number of Shares	Rate.	Amount.

Total Rupees.................................. Total Rs.

Signature..

Form E.

The Calcutta Stock Exchange Association, Limited.

CLEARING HOUSE

Name of Member..

Summary of Transactions for settlement on......................19 .

PURCHASES.			SALES.		
No. of shares.	Company.	Amount.	No. of shares.	Company.	Amount
		Rs. As. P.			Rs. As. P.
	Burrakur Coal			Burrakur Coal	
	Howrah Mills			Howrah Mills	
	Indian Iron			Indian Iron	
	Steel Corporation			Steel Corporation	
	Amount receivable			Amount payable	
	To be delivered.			**To be received.**	
	Burrakur Coal			Burrakur Coal	
	Howrah Mills			Howrah Mills	
	Indian Iron			Indian Iron	
	Steel Corporation			Steel Corporation	
	Amount payable			Amount receivable	
	TOTAL			TOTAL	

Member's signature..

Checked. Passing Officer.

Bombay Stock Exchange

The Bombay Stock Exchange is known as the "Native Share and Stock Brokers' Association."

Management

The executive of the Bombay Stock Exchange is the *Managing Committee,* consisting of sixteen persons, elected by members from amongst themselves every two years. The Committee frames all Rules and Regulations, and controls the stock exchange. No non-Indian can be on the Managing Committee. The Bombay Stock Exchange is not a limited Company, and is controlled by the Government under the Bombay Securities Contracts Control Act.

Membership

There can be not more than 451 members of the Bombay Stock Exchange, and each member must deposit Rs. 10,000 as security with the stock exchange. The deposit is withdrawable, if a member does not do any business in the stock exchange, but he may continue to be a member. The deposit must be there as long as he is actually conducting transactions on the stock exchange. Members are allowed to have authorised clerks to assist them. Every member must pay an annual subscription of Rs. 5/- and another one rupee for charity.

Transactions

In the Bombay Stock Exchange settlement is made on a monthly basis, and forward transactions are frequently practised. Having a month's time for closing any transaction the dealers can afford to indulge in heavy speculation, which is the keynote of the Bombay Stock Exchange.

In other matters the Rules and Regulations follow closely those of Calcutta Stock Exchange. No member is allowed to deal with an outsider except as a broker, and all transactions in the stock exchange are done amongst members only.

There is an *Arbitration Committee* composed of sixteen members who settle all disputes arising amongst members of the stock exchange.

There is also a *Defaulters' Committee* consisting of six members who undertake the charge of all affairs of any defaulter member. If any member defaults to meet his obligations, he is allowed six months' time to set himself right. If he fails to do so, his membership card is forfeited by the Managing Committee, and is put on auction. The proceeds of the sale of the card go towards clearing the obligations of the defaulter.

Stock Exchange Clearing House

Bombay has got a Stock Exchange Clearing House whose object is to facilitate transactions amongst members by accepting and delivering securities as well as by arranging to clear the differences. Though it passes documents between buying and selling members, it is not responsible for the genuineness of the documents. Only members are entitled to use the Clearing House to close transactions. In case of forward transactions, particularly in some securities as specified by the Board of Trade from time to time, members must use the Clearing House compulsorily for closing such dealings.

Comparative Study: London, Calcutta, Bombay

From the above survey, it is found that the prices of securities on the London Stock Exchange tend to be steady, and wild fluctuations are rare. The rule of cash dealings, or at best fortnightly settlement, combined with the existence of jobbers, who are always quoting a "double-barrelled" price, as it were, has prevented wild speculations. In the Calcutta Stock Exchange, in spite of the cash dealing system, speculation is more indulged in because the rule is obeyed more in the breach, and forward transactions are permitted. By allowing people to deal under the "difference" system, fatka transactions are encouraged. The Bombay Stock Exchange has become a popular forum for gambling and speculation by its monthly system coupled with forward transactions. Since the fundamental objective of a stock exchange should be to provide a genuine market for invested capital, speculation and gambling must be eradicated as far as possible. This can be done to a

considerable extent by following the practices of the London Stock Exchange. Cash transactions should be insisted upon, and in all cases transactions should be actually closed by deliveries and cash payments.

In membership, the London Stock Exchange has introduced to some extent the democratic principle by taking in authorised clerks on comparatively easier and better terms, and has thereby recognised merit, efficiency and experience. Similar principles may well be introduced in India.

The interests of the investing public are adequately safeguarded in the London Stock Exchange, because when the jobber gives the contract to a broker, mention is made of the actual buyer or seller. Hence, the latter knows exactly at what price his deal was made inside the House as between the broker and the jobber. In Calcutta and Bombay this is not so. Inside the House contract is made between brokers and brokers, and no mention is made of the actual buyer or seller in whose behalf the brokers are acting. Later, when the broker gives a separate contract to the ousider, the latter has to accept whatever price is dictated by the broker, because the outsider has no means to know at what price the deal was closed inside the House. The London practice is much more healthy and should be copied in our country as well.

It may be mentioned here that owing to war conditions prevailing in India, certain changes have been enforced in the Rules and Regulations of stock exchanges to curb speculation.

Lahore Stock Exchange

After several attempts five or six brokers started a private association under the style of the "Lahore Stock Exchange" for the purpose of doing business in stocks and shares. The association was converted into a regular body in January, 1936 in the form of the "Lahore Stock Exchange Ltd.", which took over all assets and liabilities of the previous body. Members of the previous institution also became its members. The share capital of the exchange is Rs. 1,00,000 divided into 100 fully paid up ordinary shares of Rs. 1,000 each.

Members are required to pay an admission fee of Rs. 500 and a monthly subscription of Rs. 15, while their partners and assistants are required to pay an admission fee of Rs. 50 and a monthly subscription of Rs. 10.

Transactions are made on cash system and all deliveries must be made on or after the next working day after the contract and cash to be paid on delivery. In case of failure of seller to deliver shares within 30 days, the buyer after reporting the fact to the Committee may cancel the contract or buy in the open market at the seller's risk.

Any complaint must be made to the Committee which charges a fee of Rs. 5 from any outsider who lodges a complaint against a member.

Madras Stock Exchange

The first stock exchange in Madras known as the Madras Stock Exchange was formed in April, 1920 with about 100 members working under rules formed by a Board of Directors. It ceased to operate and in August, 1937 another stock exchange under the style of the "Madras Stock Exchange Association Ltd." was established.

Any person who wants to deal in this Exchange has got to deposit with the Association a sum of Rs. 5,000 and pay a subscription of Rs. 25 a month. A member can authorise two assistants to do business in the Exchange in his behalf. A partnership or a firm may, however, employ four assistants. An assistant must wear a badge when working in the Exchange, and he is liable to expulsion and suspension if he transfers his badge to any other person. An assistant cannot do business on his own account. No member of the Stock Exchange is allowed to do business with a member of any other Association of Madras dealing in stocks, shares and securities, nor is he allowed to share brokerage with any such member. A member cannot do business with a non-member without charging regular brokerage. Employees of the Exchange cannot do business with its members.

Business is transacted either on cash or on forward basis. No option business is allowed. Unless otherwise specified, all transactions admitted to forward dealings are deemed made for the current settlement. Any bargain made for a period beyond the current and ensuing settlements is not recognised and considered void. The Board of Directors fixes every month a date from which bargains for the ensuing settlement may be made. In all ready delivery contracts the necessary transfer forms duly signed by the transferor and witnessed, have to be delivered within the seventh day from the day of sale, failing which the securities may be bought in by the buyer in the open market at the seller's risk.

Any dispute amongst members is settled by arbitration which is arranged by the Council of the Association.

Cawnpore Stock Exchange

A stock exchange has been established in Cawnpore in January, 1940. Business in this exchange is transacted on both cash and forward systems.

Stock Exchange List

Generally, every stock exchange publishes a list of approved securities dealt with in the House, and gives quotations of their prices from day to day. Before any stock or share can be dealt with in a stock exchange, it has to satisfy certain conditions as laid down by the rules and regulations of the stock exchange, which aims at seeing that such securities may be reasonably good for investment. It can thus provide some safeguards for the investing public.

Speculation on Stock Exchange

In every stock exchange genuine and speculative transactions go side by side. There are dealers who buy or sell not for investment purposes, but with a view to speculate for profits. A speculator buys or sells not to take or make delivery, but simply with the object of making a counter-transaction, and thereby make profits out of the difference between his buying and selling prices or *vice versa.*

When a speculator buys shares not with the object of taking delivery but simply to sell them again before settlement day arrives in the expectation of a rise in prices, he is known as a *Bull*. Similarly, a *Bear* is a speculator, who sells shares anticipating a fall in value. A bear generally sells shares, which he does not possess, but expects to buy them later at lower prices, and close his deals. A *stag* refers to a speculator, who applies for shares of a new issue, anticipating that they can be sold later at a premium. He intends selling his shares at higher prices before any remaining calls are made on the share money.

Option Dealings

Option dealing is a kind of speculation where a person pays so much per cent. or so much per share for the option of buying or selling a certain amount of stock or a number of shares, on a fixed day and at a fixed price. This naturally limits the speculator's liability to a known fixed amount. The option to buy is known as "Call Option." The option to sell is called "Put Option." A double option to buy or sell is "Put and Call Option." In a Put Option, the purchaser of the option obtains in exchange for the money paid for it, the right to compel the seller of the option to buy a stated number of shares at an agreed price at some agreed future date. The Call Option confers the right upon the buyer to compel the seller of the option to sell to the purchaser a certain amount of shares at a fixed price at some agreed date. A Double Option is a combination of the above two options, that is to say, the purchaser gets the right of compelling the seller either to buy from or sell to him a certain amount of shares at an agreed price at an agreed date. A double option is a purely speculative deal; the seller banks upon the possibility that prices of shares under the option deal will be steady, or at best fluctuate within narrow limits so as not to exceed the purchase money of the double option. Option dealings are popularly indulged in, because this type of speculation tends to limit the risk to a maximum amount, which is equal to the purchase money of the option. The price of an option is generally fixed at a rate per cent. of the price

at which the security is to be delivered, while prices of double options are twice as much as single ones.

"Call of More" means that the buyer of a fixed amount has the option of buying twice the quantity, if he so wishes. Similarly, "Put of More" entitles the seller of a fixed amount to sell double the quantity, if he finds it advantageous to do so.

The buyer of an option is entitled to the dividends or any bonus declared during the period of the option.

A strong bull may artificially raise the value of any stock by constantly purchasing the latter, and this process is known as "rigging the market". It is also akin to what is known as "cornering the market". A corner usually takes place, when some influential dealers, possessing a large number of particular shares already, start buying up all further available supplies of such shares in a way that their purchase exceeds actual amount of shares available. In that case, those who have sold to them must needs buy again from the "corner" itself to honour their commitments, and as such they must be prepared to pay high prices.

Influences on Stock Exchange Prices

Prices on the stock exchanges are governed generally by conditions of demand and supply of securities as in case of other values in Economics. On the sides of both demand and supply, two influences are predominant, namely those of speculators and investors. There are people who go in for securities for investment bargains, while there are others who want to make profits by price fluctuations. Though actions of speculators influence prices, their effects are more temporary than those caused by genuine investors. Despite efforts of speculators, sound securities will tend towards their normal and legitimate prices.

Conditions of trade and industry also react upon prices of securities to a large extent. Be he a speculator or an investor, he invests his savings in securities in order to earn a good rate of yield. If he can earn higher rates elsewhere, he will divert his resources from securities to other channels of investment. When

there is an industrial boom, investments in industries and trades bring very good remuneration which tends to be higher than that on securities. People, therefore, begin to withdraw their savings from securities' investment and put them in industries and commerce. Hence, there is a fall in demand of securities, and so their prices tend to fall. This is more true in the case of speculators. During a period of industrial boom, there is a great demand for capital from industries and so the value of money goes up. Hence, rates of interest charged for loanable capital tend to rise. Now, as speculators generally do business with borrowed capital, they will find it no longer remunerative to deal in securities by borrowing capital at high rates of interest. These factors combined will diminish the demand for securities, which will be supplied in larger quantities by people, and so prices will be depressed. It may, however, be observed that prices of certain industrial shares may rise in a period of trade boom, but such shares form only a part of the entire range of securities dealt in the stock exchange.

Prices of securities may similarly rise if reverse conditions prevail. If there is a depression, industries do not pay ; people divert their resources from industries to securities to earn better rates of interest, and hence demand for securities goes up bringing in its train a rise in their values.

War generally exercises a great influence upon prices of stock exchanges. During a war, Government floats loans fetching high rates of interest, and so investors shift their investments from securities to these Government loans. Despite even smaller returns nationals prefer to contribute to Government loans to help the country to win a war. Hence, money becomes dearer, and industries can obtain it only at higher costs. There is more taxation in the country causing again a reduced demand for securities. There is less international trade, and so people have smaller savings to invest in securities, because industries and trades suffer, and so incomes of people decline as well. War on the whole causes an increase in the value of money, and hence the demand for securities tends to fall. Consequently, prices of securities are depressed during a war. Here again

there may be some exceptional cases, *e.g* the war industries engaged in producing war materials, and the prices of the shares of those industries may show some rise.

OFFICIAL REPORT AND QUOTATIONS

Of The Calcutta Stock Exchange Association Ltd.

Calcutta Wednesday the 4th April, 1945

MARKET REPORT

The market remained more or less unchanged. The volume of business was fair. Government Securities showed no change

DAILY TRANSACTIONS

To-day's Final transactions up to 3 P.M.

Govt. Securities:—

2¾% Loan (1948-52) at 98/14.
3% Loan (1951-54) 10/13 s.l.
3% Loan (1953-55) 100/7, 100/9 s.ls.
3% Loan (1963-65) at 99/3 s.l., 98/14, 98/15.
4½% Loan (1955-60) at 117/13.

Banks:—

Calcutta National Bank 15/5, 15/6
Reserve Bank at 133/- s.l., 133/8, 133/-.
United Commercial Bank 20/- p.m.

Railways:—

Mayurbhanj Rly. at 92/8.

Cottons:—

Bengal Nagpur at 40/8.
Kesoram at 16/14.
New Victoria 6/14 s.l., 7/2, 7/3.
Do. (Pref.) at 8/4 s.o.l., 8/10.

Coals:—

Amalgamated at 52/-.
Bengal at 682/-.
Bhalgora at 20/12 c.t., 20/12, 20/11, 20/10.
Ghusick & Muslia 15/3, 14/12.
New Beerbhom 39/4.
Raneegunge 49/8, 49/12 s.ls., 49/4, 49/8.
Rewa at 44/-

Jutes:—

Alliance at 610/-.
Barnagore 221/-, 220/-.
Caledonian at 531/- ex. div
Champdany at 257/- c t
Cheviot at 313/-, 311/-.
Craig at 5/14 s.ll c.t., 6/-.
Howrah at 87/14, 87/12, 87/11.
India at 691/-, 690/-.
Kamarhatty 688/- s.l., 689/-, 687.
Kanknarrah at 574/- o.l., 577/-, 574/-.

Minings:—

Burma Corpn. at 5/-, 5/1, 5/2, 5/3.
India Copper at 2/15, 3/-.
Rhodesia Copper at 2/- S.T., 2/4.

Cements:—

Assam Bengal Cement (Defd.) at 3/12, 3/13.
Bengal Potteries at 26/4.

Chemicals:—

Alkali & Chemical at 28/8.

Dharangadhara Chemical at 467/8, 470/-, 472/8.

Eng. Companies:—

Burn & Co. at 410/- s.o.l.

Indian Iron & Steel 38/13, 38/11, 38/10, 38/9, 38/8.

Kumardhubi Eng. at 10/2, 10/3, 10/4.

Marshall & Co. at 4/14.

National Iron & Steel at 11/12, 11/11, 11/9.

Textile Machinery (Old Pref.) at 127/-.

Miscellaneous:—

Aluminium Corpn. 15/-.

Balmer Lawrie at 472/-.

Calcutta Safe Deposit at 9/4 s.l.

Dunlop Rubber at 67/12 c. div., 63/14 ex. div.

Indian Rubber Manfg. 28/- s.o.l.

Macfarlane & Co. at 8/4

Oil Share:—

British Burma Petrol at 5/- c.t., 4/13, 4/14, 4/15, 5/-.

Indo Burma Petrol at 103/- c.t.

Paper Mill:—

India Paper Pulp at 222/- s.l.

Titaghur Paper at 26/14, 27/4 s.ls., 26/14, 27/-, 27/2.

Do. (1st Pref.) at 217/8.

Real Property:—

Humayan Property at 16/4.

Midnapore Zemindary 169/8, 170/- s.ls., 167/-, 168/-, 169/-, 170/-.

Saw Mill:—

Assam Saw at 5/13, 5/14.

Shippings:—

India General Navign. at 184/- s.ls., 178/-, 184/-, 184/8.

Port Shipping at 29/6.

Sugar Share:—

Balrampore at 16/6.

Carew & Co. at 26/- s.l., 26/4 s.o.l., 26/10, 26/7.

Cawnpore at 36/4.

Tea Shares:—

Central Cachar at 116/- s.l.

Chamong at 21/14, 22/-.

Dessai & Purbuttia at 405/-, 407/- s.ls., c. div.

East Indian Coal—Dividend of 5% for the half year ended 31-10-44 (less Eng. Income Tax @ 5s. 6d. per £) declared. Books closed from 20th to 30th April, 1945.

By Order of the Committee.

N.B. :—

x—Ex-Dividend.

y—Dividend for the year.

—Dividend on 1943 crop.

—Dividend on 1944 crop.

Psh—Rupees per share.

SSG.—Secretary of State Guaranteed.

a—Ad-Interim Dividend.

N—Nominal.

S—Sterling.

C.T.—Cross Transaction.

S.O.L.—Small Odd Lot.

S.T.—Special Terms.

D.B.G.—District Board Guaranteed.

Pm.—Premium.

R.—Redeemable.

Disc.—Discount.

X.R.—Ex-Rights.

s.l.—Small lot.

C.R.—Cum Rights.

F.U.D.—Filled Up Deed.

**—Income Tax Free.

Tax.—Dividend Taxable

P.R.G.—Parent Railway Guaranteed.

's. lots' means small lots. Generally there is a unit in every kind of share which is dealt with in the Stock Exchange, *e.g.* Howrah (Jute Mill) shares are dealt in a lot of 100 shares, but when any lot smaller than this prescribed unit is transacted, it is known as small lots indicated by s. lot, s. lots or lots. Government Securities are dealt in a lot whose value is Rs. 25,000. Any thing less than this sum is termed as s. lots. These small lots are usually multiples of the prescribed unit to be dealt with. Thus for example 20, 25, 50 shares of Howrah (each share = 10 rupees, per value) are small lots as they are multiples of 100. If any small lot other than such a multiple is dealt with, then it is called odd lot or odd, *e.g.* 9, 15, 23 shares of Howrah are odd lots.

'Ex. div.' means that the share does not entitle the new buyer to any dividend which is already declared and due.

'C. div.' or 'Cum div.' means that the share entitles the new buyer to any dividend which is already declared and remains due.

'C.T.' means cross transaction. When a broker gets an offer from a client to sell a lot of shares or stocks and a simultaneous offer from another to buy the same lot, he usually passes the lot from the seller to the buyer and does not put it in the open market.This type of transaction is called Cross Transaction.

'Opening' means the price at which any security is at first sold and bought. 'Closing' is opposite to 'Opening' and denotes the price at which any security is transacted last.

Certain shares may be issued by companies which confer on their present holders the right to take up some other shares within a certain period at a fixed price. If the value of the latter shares rises above the price at which they are offered then such rights become valuable, and the former shares may be sold either with rights when the price is quoted as 'cum rights', or they may be sold as 'ex-rights', that is without rights. When shares are sold 'ex all' the purchaser obtains no rights other than those attaching to shares themselves.

The Teji-Mandi rate refers to that at which option dealings are transacted.

Questions

1. Describe the nature and working of the London Stock Exchange and compare it with the Bombay Stock Exchange. (B. Com. Cal., 1929.)
2. Explain clearly in general terms, how business on a Stock is usually carried on. (B. Com. Cal., 1935.)
3. Distinguish between a Stock Exchange and a Produce Exchange. What is meant by 'dealing in future'? (B. Com. Cal., 1936.)
4. What are Stocks and Shares? What are the functions of a Stock Exchange or Share Market? (B. Com. Cal., 1937.)
5. Give a short account of the activities and methods of work in a Stock Exchange. (B. Com. Cal., 1939.)
6. Mention and explain some of the factors that rule the fluctuations in prices in a Stock Exchange. (B. Com. Cal., 1940.)
7. Discuss the arrangements for delivery of Government securities in the Calcutta Stock Exchange.
8. How would you connect the trade conditions of a country with prices on stock exchange? (M.A. Com. Cal., 1926.)
9. Give a short account of the constitution, method of election and functions of the committee of management in the Calcutta Stock Exchange. (M.A. Com. Cal., 1928.)
10. Describe the principal features of the Calcutta Stock Exchange. (M.A. Com. Cal., 1926.)
11. Describe the nature of working of the London Stock Exchange and compare it with the Bombay Stock Exchange. (M.A. Com. Cal., 1926.)
12. Explain cum-dividend, option, carrying over, jobbers, bears, bulls, contango, settlement day. (B. Com. Lucknow, 1922; B. Com. Bombay, 1924.)
13. How do the leading stock exchanges of the world deal with the evil of speculation and how far do they succeed in checking it? (B. Com. Bombay, 1928.)
14. Discuss the services rendered by the stock exchange clearing house. (B. Com. Lucknow, 1927.)
15. Compare the organisation of the London, New York and Bombay Stock Exchanges. (B. Com. Bombay, 1927.)
16. Define contango, ticket day, carrying over and tape price as used in the Stock Exchange. (B. Com. Bombay, 1922.)
17. Explain the nature of jobber's business on the London Stock Exchange. (B. Com. Bombay, 1930.)
18. What is the difference between jobbers and brokers? (B. Com. Bombay, 1929.)
19. Describe the importance of Stock Exchange List in commercial transactions. Enumerate and explain the different column headings used in the list. (M.A. Com. Cal., 1927.)

20. Explain the close relationship that exists between Banks and Stock Exchanges. (M.A. Com. Cal., 1927.)
21. Write a short note on the working and constitution of the Stock Exchanges at London, Calcutta or Bombay. (B. Com. Cal., 1924.,
22. Describe the organisation of the Calcutta Stock Exchange and compare it with that of London, bringing out the merits and defects of each in the course of your discussion. (B. Com. Cal., 1930.)
23. What do you understand by the (*a*) Bull and Bear as used on the Stock Exchange? Explain "Double Option" and "Option to Double." (B. Com. Lucknow, 1926.)
24. Explain the following terms :—(*a*) Contango, (*b*) Options, (*c*) Hammer price, (*d*) Stag, as used on Stock Exchanges. (B. Com. Bombay, 1924.)
25. What weaknesses and abuses of the existing constitution of, and price in the Bombay Share Bazar have been brought to light of late years? Suggest remedies with special reference to corners. (B. Com. Bombay, 1924.)
26. How far is it desirable to base the organisation of an Indian stock exchange upon principle adopted in similar institutions in Europe and America, particularly in connection with division of work between members and powers of the Board to check speculation. (B. Com. Bombay, 1923.)
27. Classify the various types of investors and show how stock exchanges arrange to meet the requirements of each. (B. Com. Bombay, 1929.)
28. What is a stock Exchange? How is business transacted there? Distinguish between a Broker and a Jobber. Is any such distinction observed on the Calcutta Stock Exchange? (B. Com. Cal., 1943.)

CHAPTER XXVI

INVESTMENT TRUSTS

Definition

An *investment trust* company is established with the object of raising non-withdrawable capital from the public by means of stocks to invest the same in selected securities. The investment trust aims at enabling the ordinary investor to secure a steady and safe return on his capital, by entrusting his funds with expert investment managers. The investment trusts invest their funds in marketable and safe stocks and shares, reducing risks of investment to the minimum. The investment trust movement originated in England during the eighties of the last century, and forms an important part of the country's capital economy. The management of investment trust must be left in expert hands, because the investment of securities needs constant changing according to fortunes of shares and stocks. Generally speaking, any profit made by constant buying and selling of securities goes towards building up a reserve fund, whereas any dividends and interests earned by investment trusts upon their investments are distributed to the proprietors or shareholders of the trusts.

Fixed Trust

The Economic Depression of 1929 and after, brought about an orientation of outlook of the investment trusts, which started to find difficulties in selecting suitable securities to spread risks of investments. Hence, grew up another type of investment trusts, known as *Fixed Trusts*. Originally started in America, they spread to England and elsewhere. As distinct from its prototype, a Fixed Trust from its inception selects a fixed portfolio of investments, and does not deviate to any other securities. Though stability is assured, it misses the opportunity of changing its investments from one type of securities to another accord-

ing to oscillations in the fortunes of particular securities concerned. The management is committed permanently to investment only in fixed selected shares and stocks. The fixed trusts have provided the small investors with an opportunity of investing their savings in diverse securities by enabling them to buy small holdings of fixed trusts, which generally practise dividing their units into small sub-units, offered for sale to persons of limited resources. Generally, the management of fixed trusts is not left in the hands of particular managers. Fixed trusts are usually given ten to twenty years' life, and a bank or an insurance company is appointed as the trustee of a fixed trust according to conditions clearly laid down in the trust deed negotiated with the management company. The shares of a fixed trust are, therefore, held in safe custody by a trustee, either a bank or a kindred institution.

The investment trust movement has recently come to India. Bombay has been working successfully a few investment trusts, though Calcutta has not yet had much luck with one or two investment trusts working here. Prospects of the New India Investment Corporation Ltd., of Calcutta may have good results with improved management. There is no example of a Fixed Trust as yet in India.

The Fixed Trusts are gradually abandoning their rigid principles, because many trust managers are realising the dangers of fixity. Flexibility is being introduced by investing the trust managers with discretionary powers to change the portfolio of investments if necessary. Investments are now very often shifted from one type to another. These trusts which are not completely fixed are now called *'Unit Trust.'*

Insurance Share Trust

A Trust of insurance shares has been formed by Trust Deed in England in order to invest in stocks and shares of a selected group of thirty one British insurance companies. The life of the Trust is fixed now for 20 years, and investments of the Trust will be made for the benefit of the holders of the "Insurance Unit Certificates." These certificates can be purchased in mul-

tiples of ten. It has also been laid down that the Trust cannot invest more than 10 per cent of its funds in any one company, and its investments in any one company cannot exceed 5 per cent. of the issued share capital of such a company.

Another Trust known as the "Bank and Insurance Shares Trust" has been formed in England with the object of investing in stocks and shares of selected 42 insurance and banking companies of England, Canada, Australia, New Zealand, India and South Africa. The minimum initial purchase is 10 units.

Finance Companies

Finance Companies are very akin to Investment Trusts. They raise money from the public either by selling shares or through raising loans in order to finance industries, although they also invest a part of their funds in stocks and shares. The financing of industries is the main part of their work. Generally, Finance Companies concentrate on one type of concern, *e.g.* they finance either mining companies, cotton mills, jute mills or some other industries. This kind of concentration brings them the chance of large profits with also concomitant risks. They thereby undertake all risks of industries ; if those industries suffer they suffer too. Whereas if investment is distributed, risks tend to be minimised. Finance Companies are, therefore, more speculative in character than Investment Trusts. The Finance Companies commonly raise funds by floating redeemable debentures carrying a fixed rate of interest.

Questions

1. What is an Investment Trust? What are its special features of safety? (B. Com. Cal., 1936.)
2. What is an Investment Trust? Explain its utility in modern times. (B. Com. Cal., 1940.)
3. Define Fixed Trust, Unit Trust and Finance Companies.

CHAPTER XXVII

MONEY AND CURRENCY

Barter

In primitive days, people used to be economically self-sufficient, everybody producing all his needs. Gradually, each started to produce more of a particular commodity than what he actually required for himself, and such excess was exchanged with that of another man's production in a different line. In this way, people began to exchange commodities with one another: and this type of exchanging a commodity for that of another directly is known as barter. In modern international trade, we find that barter is really operating, because a country often tends to pay for its imports by means of its exports.

Subsequently, difficulties of barter exchange tended to appear as society started to grow more complex, and people's wants multiplied. In barter, a man with a particular commodity must find out another with another thing, which the former requires in exchange, and at the same time the latter must also be prepared to take the former's goods in exchange. Such coincidences are very difficult to find out. In addition, in barter exchange, difficulties will arise regarding the measure of value, *viz.* how to decide what amount of one commodity is exchangeable for that of another, and in what proportion. Thus, for example, a man with a goat to spare requires a coat, and if he has to exchange his goat for a coat, he feels he is having worse of the deal.

Money

Hence, barter was gradually abandoned, and people discovered a common medium of exchange, that is to say, a common thing was made which everybody was prepared to accept in exchange, and everybody could obtain their requirements by

giving in exchange this common thing. The common medium of exchange is money.

Functions

Money serves as a common (*a*) *medium of exchange, i.e.* everybody is prepared to accept it in exchange of any commodity ; (*b*) it serves as a *standard* or *measure of value.* Every commodity is measurable in terms of this common medium, one can know exactly what is the worth of the commodity, which he possesses ; (*c*) it serves as a *standard for deferred payments,* that is to say, if anybody is to receive any payment at some future date, he can exactly measure what he is going to receive ; (*d*) money also serves as a *store of value,* because in this common medium value can be stored for future.

Qualities of Good Money

Since money serves as a common medium of exchange, it should consist of a material, which is likely to satisfy the following conditions. (1) It should possess a stable value, or in other words, the supply of this commodity should be subjected to least chances of fluctuation. (2) It should be homogenous and easily cognisable, *viz.* the material should not vary in quality, and anybody should at once recognise it on sight. (3) It should carry great value in small bulk, that is, it should be easily portable. (4) Apart from its being valuable as money, the material ought to be valuable intrinsically, and useful.

In practice, it is found that gold and silver tend to meet these conditions more admirably than anything else, and of the two, gold is perhaps much nearer the ideal. Hence, gold has become international money.

Standard and Token Coins

The currency system of a country may consist of various forms of money. It, generally, possesses different forms of coins in circulation. *Legal tender* means that by law of the country a form of money is compulsorily acceptable by a creditor in discharge of his debt. Any coin in circulation which is made a

legal tender to an unlimited extent is generally the *standard coin* of that particular country. Generally, the standard coin of a country composed of metal, carries a face value as printed on the metal exactly equal to the value of its metallic contents. In India, of course, the standard coin, *i.e.* the rupee carries a face value greater than that of its silver contents. In addition to the standard coin, there are other subsidiary coins in circulation. They are legal tender only for small payments up to a limited extent, and the metallic contents of such coins are less valuable than their face value. Such coins are *token coins, e.g.* our two anna, four anna pieces, etc. The standard coin of a country also serves as a measure of value for other token coins, *i.e.* the latter are expressed as multiples of the former.

Currency System

The currency system of a country may be *monometallic, bimetallic,* or *limping standard,* according to whether the standard legal coin is convertible into gold, silver, or both.

Monometallism

In a monometallic standard country, only one metal is used as the standard, and gold is generally chosen, and then it is known as a *gold standard.* A gold standard may, again, be studied under three types. (1) A country is said to possess a *full gold standard,* when actual gold coins are in circulation as the country's full standard coin, and any other currency like token coins or notes of the country are convertible freely into standard gold coins. Gold is freely available, and mintable into gold standard coin. (2) The *Gold bullion standard* is distinguished from the previous system by the fact that under a gold bullion standard, the standard coin in circulation may be of gold or otherwise, but all currency of the country is freely convertible into *gold bullion* or bars, as distinct from gold coins like in the previous case, and a fixed rate of exchange prevailing between the gold bullion and the standard currency of the country concerned. In both systems, however, gold is freely available, and there is no restriction on the movement of gold, inside or outside the country. (3) Then we have got the *Gold*

Exchange standard, in which case gold does not go in circulation and the standard coin is composed of other than gold. The currency of the country is not convertible either in gold coin or gold bullion, but it is convertible into gold exchange, and that only for external purposes (payments outside the country). The gold exchange means a foreign exchange, which is convertible into gold. India used to possess a gold exchange standard, until recently, *viz*. the Indian rupee was convertible into gold exchange, and in this case sterling exchange was adopted, sterling being based upon gold. The working of the Indian gold exchange standard may be briefly described here. The Government of India built up both in London and in this country large gold reserves. When in England the demand for bills on India goes up, the value of rupee in terms of sterling shoots up as well, and then, in order to restore the rupee-sterling exchange to its normal parity, the Secretary of State for India starts selling in London, Council Bills and Telegraphic Transfers, which were drawn upon the Government of India and payable in rupees. By thus selling Council Bills, the exchange was again restored to parity. Conversely, when there is a greater demand for sterling in India, the rupee drops in value in terms of sterling, and here again to restore the normal parity of the rupee-sterling exchange, the Government of India starts selling Reverse Council Bills, that is, bills drawn upon the Secretary of State for India, and payable in London.

The Indian gold exchange standard is now modified into what is called the *Sterling Exchange Standard, viz*. the Indian rupee is convertible into a sterling exchange for foreign purposes at a fixed ratio of Re. $1 = 1s. 6d.$ The mechanism as well as the purport and objects of this new standard are virtually the same as those of the gold exchange standard. From the Indian standpoint, our system is not what is desirable. It is no good linking our fate to that of another country, and thereby confining our economic destinies to those of another, over which we have no control.

In a *monometallic silver standard* country, the full legal tender coins, and any other currency are convertible into silver.

The *Limping Standard* is found where both silver and gold are full legal tender, but only gold can be coined freely.

Bimetallism

In a bimetallic standard, both gold and silver circulate side by side, and the standard coins of the country consist of both gold and silver coins. The value of gold and silver is fixed in a certain ratio in that system of standard. It has been urged that by basing the standard on two metals, it is possible to maintain a stable price level, because if the supply of one metal falls short, it can be compensated for by that of another. The volume of currency, consisting of two metals can be adjusted according to business needs of a country more easily than under a system, where the country has to depend upon one metal for its currency.

Paper Currency

In addition to metallic coins, the currency of a country may consist of paper notes too. Where paper currency is convertible into gold, or a standard coin, it is known as *Convertible Paper Currency*. For the purpose of convertibility of notes, the note issuing authority may keep gold or standard coins in reserve to the fullest extent of note issue, or only to a certain proportion of it. That portion of the note issue, which is not fully covered by an equal amount of gold or standard coin, is known as the *Fiduciary Paper Currency*. *Inconvertible Paper Currency* refers to paper money, which is not convertible either in gold or standard coin. It is naturally less popular, and tends to lead to inflation, because the issuing authority has hardly any responsibility in the matter. The system is open to abuses.

Quantity Theory of Money

The quantity theory of money states that the value of money tends to vary inversely as its quantity. In other words, it means that other things like the amount of goods and transactions constituting the total demand for money remaining the same, if the volume of money is increased, its value falls, and

vice versa. Now, the value of money means its purchasing power, *viz*. if we say that 20 mangoes are available for a rupee, then the value of a rupee in this case is equal to 20 mangoes. Other things remaining equal, if more rupees are available in circulation, then a rupee will buy less than 20 mangoes, and hence the value of money drops. When the value of anything is expressed in money, it is termed price. Hence, according to the quantity theory of money we can say that if the volume of money is increased, then prices of things will go high, and the value of money falls and *vice-versa*, assuming that other things remain the same.

The quantity theory of money will not operate if business so increases that a greater volume of money is necessitated by this increase. Nor will it operate in spite of an increase in the volume of currency, if there are circulating both good and bad coins side by side. Because, under the Gresham's law, bad money will drive out of circulation good money, and thereby, eat up the increase in the total volume of currency.

Gresham's Law

In money matters there is a law known as the "Gresham's Law", which has taken the name of its founder, Sir Thomas Gresham. He discovered that if currency consists of good and bad coins, or of good and bad money, then bad money has a tendency to drive good money out of circulation. This general law is subjected to the qualifying clause that this statement of a tendency can only be true, provided the total volume of money is sufficient to meet the total demand for money, otherwise both good and bad money will remain in circulation.

An example of good and bad money is easily found in the case of old coins, which are clipped, worn out, etc., circulating along with new glittering coins. The inevitable human tendency will be always to pass on the bad old coins, keeping the new ones to himself. When paper circulates with coins, the former is a bad money.

Another example is found in the case of a currency system, having a bimetallic standard. Where coins of two metals cir-

culate simultaneously as standard coins, one often tends to be under-valued in terms of the other, and in such a case, the under valued coin will have a tendency to go out of circulation in order to be used for other uses where it is given a higher value than its currency value.

Questions

1. Describe the economic significance of barter.
2. Describe critically the quantity theory of money.
3. What were the results of India going off the gold standard?

(B. Com. Cal., 1933.)

CHAPTER XXVIII

BANKING

Functions

A bank may be defined as an institution dealing mainly in money and credit. Amongst others, the following may be called the principal functions of any modern bank.

A bank receives deposits on *current account* from the public, which are withdrawable by cheques on demand. As a practice, good banks do not allow any interest to be paid on current account, unless the balance is fairly good.

Money is received from the public also on *fixed deposit*, which can be withdrawn after some determinable date, or after notice. Fixed deposit accounts bear a rate of interest.

A bank gives *loans* to a customer by a *fixed advance on a loan account*, and in this case the interest is payable on the entire amount of the loan until the latter is completely paid off. If loans are given by way of a fluctuating *overdraft account*, the interest is only charged on the unpaid portion of the loan.

A bank often advances money by means of *discounting bills*, *viz.* the banks buy bills of exchange at their face value minus interest chargeable for the time before maturity of the bills.

A bank may collect cheques, bills, etc., for its customers; it acts as a trustee or executor; it deals in foreign exchange, issues letters of credit, serves as custodian of valuables; some banks also issue notes.

Though at one time the note issue was regarded as an essential function of a bank, it is not so now. Now, the note-issuing right is generally vested in the Central Bank of a country.

Essentially, a bank exists in order to mobilise the capital of the society. It borrows money from those who have it, in order to pass it on to others, who require it. It acts like a middleman in financial matters.

Banker and Customers

As pointed out above, a banker is a debtor, and its customer, a creditor. Now, when a bank receives money from a customer, it is free to utilise that fund in any way it likes. Unlike other debtors, any bank as a debtor is not required to repay its so-called loan unless the repayment is demanded by customers.

A bank is always in duty bound to honour, *i.e.* to pay any cheque of a customer, provided it is drawn in order, and there is sufficient money to drawer's credit account. If this cheque is not honoured by a bank especially when it is drawn in favour of a third party, then the customer is entitled to damages from the bank provided there is sufficient money in the customer's account to pay the cheque. If the banker becomes insolvent, the customer can only obtain dividend from the property of the bank like any other creditor. The claim of a customer on a bank becomes barred after six years if he receives no acknowledgment of the debt.

A bank makes a contract with a customer at the time of receiving the deposit from him, and it is required to pay as directed by the customer. If the bank pays in any other way than as directed, the bank is liable. If a cheque is forged and paid, the bank usually bears the loss. If the bank pays any post-dated cheque before its date then the bank cannot debit a customer's account until the date of the cheque is reached. A cheque to order is paid to the payee or endorsee, and the bank is not liable if the payee's endorsement is forged. A bank may act as a Trustee for its customers, and any breach of faith involves the bank in a criminal liability.

Since a bank advances money to a customer as a loan, it generally does so against some kind of security. The bank is always presumed to have a lien on such security, which it can even dispose of to realise its loan advanced.

Good banks usually charge their customers a certain amount of money annually for giving services in current accounts, or kindred other services.

Banks are fundamentally useful institutions for rendering

services as a "referee". Suppose a manufacturer wants to deal with a trader; before he can do so, he would like to be enlightened as to his new dealer's financial position. This he can do by means of a reference to the bank of the trader. Though every bank is required to keep utmost secrecy regarding its client's accounts, except in a few cases as enumerated below, it has now become the practice of banks to exchange amongst them any necessary information regarding their customers. In so doing every bank is very careful not to divulge too much, nor will it give the information to any one other than a bank, or one of its own customers. In no case, however, the exact amount of a customer's credit will be made known. Such a practice has grown out of conventions, and it is now presumed that every customer has more or less given his implied consent to such a procedure.

A customer's account may be divulged if the bank is compelled to do so by law, duty, interests of the bank itself, or consent of the customer himself.

A Bank Balance Sheet

The financial position of a bank can be gauged by analysing its balance sheet. On the Liability side the following are the major items—

1. *Capital.*—This represents the share capital contributed by its shareholders. It may be fully or partly paid-up. The latter is usually the rule, because the unpaid capital is a liability of share-holders which can be called up any time. This contingent liability serves as a reserve fund to be utilised in crisis, and as such creates additional confidence in the public.

2. *Current and Deposit Accounts.*—This is the money paid in to the bank by customers on current and deposit accounts. In a current account, the depositor can draw out the money any time. But in case of a deposit account, the money cannot be drawn before a fixed period, and can be withdrawn earlier after the notice of withdrawal is given, because the bank allows a special rate of interest on such money.

3. *Bills Accepted.*—These bills are accepted by the bank on behalf of customers who have arranged to put in the bank the necessary funds for payment at the time the bills are presented for payment. In exchange of this service, the bank is paid a certain rate of commission.

4. The *Reserve Fund* is an accumulation of undistributed profits of the bank.

5. *Dividends* and balance of profit and loss account are shown clearly.

6. By accepting *Letters of Credit*, a bank puts liability upon itself to that extent.

The Assets side shows the following main items:—

1. *Coins, Notes and Balances* with the Reserve Bank of India represent the cash of the bank which it holds very liquidly against its liabilities. What percentage of cash a bank should hold against, particularly, deposit liability is generally governed by the experience of a bank. The scheduled banks in India are, of course, made to deposit at all times compulsorily with the Reserve Bank a cash balance amounting to not less than 5 per cent of its demand liabilities and 2 per cent of its time liabilities in India at the close of business any day under the Reserve Bank of India Act. Any case of default is severely dealt with under penalties.

2. *Cash at Call and Short Notice* means money which is invested in very liquid and easily realisable assets. Cash at Call may be called back any time, while Cash at Notice after a short notice being given for repayment. This kind of investment is confined usually to bill-brokers and stock-brokers, whose financial integrity and position are very high, and they can repay any time.

3. Then come other investments in gilt-edged securities, bills, hundies, advances to other banks, advances to customers' accounts as over-drafts, etc. These investments are always very liquid, so that they may be quickly realised if required. The liquidity of assets is the fundamental criterion of bank investments.

Bank's premises generally appear on the asset side.

The soundness of any bank can be gauged at a glance on its assets. The liquidity of assets is the fundamental keynote of a bank's soundness. Since a bank is liable to pay cheques on demand drawn by customers against their credits, the bank must invest its assets always in easily realisable securities, because it should be able at all times to meet its liability immediately, by converting its investments into cash.

In matters of investment banks and insurance companies have points of similarities and differences as well. Since both are public institutions dealing with public money, security should be the keynote of both banks' and insurance companies' investments. There ends their similarity. Bank's liability is contingent and it may be ordered to pay immediately, and, therefore, a bank cannot afford to go in for long-term investments. It must always keep its assets liquid, and hence its investments are always short-dated. Whereas insurance companies are required to pay off their liabilities after a long time, and so they can make long period investments. Hence, banks are suited to finance trade and commerce, while insurance companies can finance industries, wherein the repayment of both capital and interest has got to be spread over a number of years.

Bank's Loans

There are certain broad principles which a bank should follow in advancing loans either to private individuals, commercial firms or registered companies. It is not desirable to discount bills of private individuals, because they are very often accommodation bills. When a loan is made to a private person on the strength of his personal income, it is also preferable that the loan should be fully covered by an insurance policy on the life of the borrower, so that on his death the bank may not get into difficulty. A loan to a commercial firm should be made after studying its balance sheet. In a partnership firm, all the partners [illegible] jointly liable, and hence the banker's security is increased. [illegible]tending loans to a joint-stock limited com-

pany its Articles of Association should be consulted in order to ascertain the legality and power of the company to borrow as well as the powers of its directors. The company's balance sheet should be carefully studied. Every loan should be fully covered by good security.

Securities for Bank's Loans

Ordinarily every bank will advance money against certain forms of security, whose value should exceed the loan amount inclusive of interest for some time.

A security may be primary or collateral. In case of a primary security, a creditor has the right of proceeding against the debtor personally, and he possesses also simultaneous right of proceeding against the security pledged.

Stocks and shares are very desirable types of securities because they are easily marketable. Securities which are easily transferable are preferred.

Government securities, debentures and loans of recognised local bodies like Corporation, Municipality, Port Trust, etc. are also good forms of securities. Debentures of good joint stock companies are also favoured.

Documents of title to goods are also readily acceptable securities. Loans and advances are made against these wherein the borrower acknowledges the right of the banker to dispose of the goods upon default to pay within a stated period by executing a document known as the letter of hypothecation. The bank has a lien on the goods until the full debt is cleared off. The bank may allow the customer to deal in the goods, provided he gives a letter to the bank acknowledging the receipt of the goods, and undertakes to warehouse the goods in proper condition. But the bank must reserve its right of forfeiting the goods any time it likes. Generally when a bank advances against goods, it insists upon storing such goods in the bank's warehouse.

A bank may advance loans on the security of immovable property like buildings, land, etc. by means of a mortgage deed

which may be of various kinds. An equitable mortgage means that the title deeds of the property are deposited with the bank. There are other kinds of mortgages in which the mortgagor transfers the proprietary interest in favour of the bank without giving actual possession, and the mortgagor undertakes to repay the loan as well. Equitable mortgages or mortgages by deposit of title deeds can be made only in Calcutta, Madras, Bombay, Karachi and Rangoon.

A bank may advance against life insurance policy, but the advance should be lower than the surrender value. In such a case, the policy should be assigned in favour of the lending bank.

When suitable securities are not available a bank may advance upon the personal guarantee of a third person who undertakes to repay the loan or a part thereof if the primary borrower defaults to repay the loan or a part thereof. Advances may also be made upon the security of the book debts of a company provided they are assigned in favour of the bank.

Procedure of Opening a Banking Account:

Introduction

An account should not be opened in a bank for a stranger without a letter of introduction from one of its clients or making enquiry from some other bank or having obtained satisfactory reference.

Paying-In-Slip

An account is opened by paying in cash, cheque or bill to the credit of a customer. The amount of each kind is generally written upon a printed slip, consisting either of a single leaf or is taken out of a book bound with counterfoils. This sort of paying in money to an account goes generally to a current account, from which the customer can draw the money any time without giving notice to the bank. There is practically no or very little interest allowed on current accounts. In a deposit

No. BO.

......**BANK LIMITED**

Calcutta,..................*19* .

CREDIT ____________________

RUPEES ____________________

DRAWEE.	Rs.	As.	P.
Total Rs. ...			

____

CASHIER. *By*........................

Paying-In Slip (Cheque) No.

Cheques only.

......**BANK LIMITED**

FOLIO __________

Calcutta,..................*19* .

CREDIT ____________________

RUPEES ____________________

DRAWEE.	Rs.	As.	P.
Total Rs. ...			

____

CASHIER. *By*........................

Paying-In Slip (Cash)

......BANK LIMITED

Current A/C *Calcutta,*..................*19*

CREDIT ____________________

RUPEES ____________________

G. C. Notes : at Rs. 10,000 each			
,, 1,000 ,,			
,, 500 ,,			
,, 100 ,,			
,, 50 ,,			
,, 10 ,,			
,, 5 ,,			
Silver (whole Rs.)			
Small Coin			
Copper			
TOTAL Rs. ...			

CASHIER.

By..................

Cash Only

......BANK LIMITED

FOLIO ________ Current A/C *Calcutta,*..................*19*

CREDIT ____________________

RUPEES ____________________

G. C. NOTES : at Rs. 10,000 each			
,, 1,000 ,,			
,, 500 ,,			
,, 100 ,,			
,, 50 ,,			
,, 10 ,,			
,, 5 ,,			
Silver (whole Rs.)			
Small Coin			
Copper			
TOTAL Rs. ...			

CASHIER.

By..........................

account interest allowed is higher and money from this account can be drawn out after giving a bank the due notice.

Signature

After opening an account with a bank, the customer will be required to place with the bank a specimen signature in which all cheques will be drawn. The bank verifies the customer's signature from this specimen.

Cheque Book

A book of cheque forms is supplied free to a customer. Generally a book contains 15, 25 or 50 cheques.

Pass Book

Immediately after opening an account, a customer is provided with a Pass Book wherein are recorded the amounts paid out and received on behalf of the customer.

The entries in the Pass Book can be checked by counterfoils in the cheque book recording all cheques drawn, and counterfoils in Paying-in Slip Book giving all money paid to the account.

Any mistake discovered by the customer must be notified to the bank within a reasonable time, otherwise it will be assumed that the account is correct. Banks usually send acknowledgment forms to customers once or twice a year to be signed by the customer. This practice safeguards mistakes. If the customer is credited with an excess amount in his account and he is led to believe that amount as the actual amount in his favour, the bank is bound to honour any cheque to the extent of such a balance, and will be made liable if it refuses to do so. But a bank can correct the mistake by giving proper notice to the customer.

Pass Book Vis a Vis Cash Book

A certain amount of difficulty may be experienced in reconciling the Pass Book with the Cash Book, because the cash book may record certain payments-in which have not yet been "cleared", that is to say, the processes thereon are not yet

A SPECIMEN CHEQUE

No.__________

__________19

____

____

____

Rs.__________

FOL.........................

ENTD.........................

No.__________ Calcutta,.................19

.........BANK LIMITED.

...ब्यॅक लिमिटेड CALCUTTA ...ব্যাঙ্ক লিমিটেড

Pay____________________or Bearer / Order

Rupees____________________

____

Rs.__________

Signature.

DATE		PARTICULARS	CHEQUE NO.	WITHDRAWALS			DEPOSITS			DR./CR.	BALANCE			Checked by	Official
19	41										Cr. 9,010	10	9		
Jan.	1	By Balance													
		To Cheque	B.B. 203561	565	4	6									
		By Cheque					575	4	9						
		By Cheque less charges -/8/-					499	8			,, 9,720	3			

available. It may similarly record certain drawings which are not yet paid out by the banks. In order to check the accuracy of both the Cash Book and the Pass Book, it is necessary to prepare a Reconciliation Statement in the following way.

Bank Reconciliation Statement

31ST JANUARY, 19 .

		Rs.	A.	P.	Rs.	A.	P.
Credit Balance per Pass Book					260	6	0
Add amounts paid in but not cleared:							
	26th December, 19	50	8	0			
	28th December, 19	10	1	0	60	9	0
					320	15	0
Less cheques drawn but not presented:							
	No. 12589	30	6	0			
	No. 12561	40	2	0	70	8	0
Credit Balance per Cash Book					250	7	0

Thus on 31st January, 19 , a firm should have a balance of Rs. 260-6 as. in the Pass Book, whereas in Cash Book the balance is Rs. 250-7 as. This discrepancy can be explained by drawing a Reconciliation Statement as above.

Clearing System

The clearing system is an essential adjunct of the modern banking organisation. The cheque system has become so popular that the bulk of financial transactions in modern society is done through the medium of cheques. When a creditor is paid by a cheque, he generally pays it into his banker, who collects it from the drawee bank and credits his customer with the same. Now, in this way, all banks in the country have cheques upon

one another. Instead of going to each bank for actually collecting cash for a cheque, the banks in a country agree to meet in one place at different times of the day, and there they cancel their mutual obligations. This meeting place is the *Clearing House,* and every bank, who is a member of the clearing house maintains an account with the same. Credits and debits of banks are mutually cancelled, and any difference amongst them is either paid for or realised from, according to whether any bank becomes a debtor or a creditor. Thus, the Clearing House system obviates the need of passing actual coins amongst them, and thereby minimises the risks of collection, and economises in time, expenses, etc. In India, the functions of the Clearing House are now undertaken by the Reserve Bank of India at Calcutta, Bombay, Madras, Rangoon, Karachi, Cawnpore, Lahore and Delhi. No bank can become a member of the Clearing House as by right. In order to be enlisted as a member, its name should be proposed and seconded by two existing members, and approved of by the majority of the members of the Clearing House. Since all Clearing banks maintain accounts with the Reserve Bank, differences in their respective obligations are paid for by adjusting their accounts with the Reserve Bank, at the Clearing House. Any bank who is a member of the Clearing House is known as a Clearing Bank.

Non-clearing banks, that is, those who are not members of the Clearing House experience great difficulties in practical working. Their cheques are not cleared through the Clearing House. The Clearing Banks generally send cheques of such banks to the latter for cash collection, and the expenses of collection are debited to the accounts of customers in whose credit such cheques are deposited. Hence, the people are reluctant to accept such cheques of non-clearing banks. Of late, however, these banks in Calcutta have made some private clearing arrangements amongst themselves. They have formed an association called the Metropolitan Banking Association which has made clearing arrangements for its members. All cheques of these members are presented in one place, and then they collectively pay one another in cash. Even Clearing Banks

have agreed to go to this common meeting place, and collect cash for cheques of non-clearing banks. This arrangement has obviated the necessity of sending men for cash collection all over the place. As a result the Clearing Bank no longer charges their customers any collection expenses. The Metropolitan Banking Association also insists on the fulfilment of certain conditions before enlisting any bank as its member.

If any bank can make its clearing arrangement with a Clearing Bank, it is called a Sub-clearing Bank. All cheques of the Sub-Clearing Banks pass through the Clearing House on the responsibility and the guarantee of the Clearing Bank with which the Sub-Clearing Bank has made its arrangement.

Branch Banking

In England, the big banks have strewn the country with their branches, and branch banking confined within proper limits tends to confer positive economic advantages upon a country. It helps to mobilise the savings of a society more effectively by transferring funds from one area to another according to local needs. It is especially true in India, where the agricultural industry has necessitated seasonal demands for money in different areas during various periods. Through branch banking it is possible to tap the resources of every part of the country, while assuring rural areas the facility and credit of a good bank. It tends to distribute risks of investment over several industries scattered in different parts of the country, and to stabilise the volume of loanable capital throughout the country.

Unscrupulously controlled branch banking may result in an undesirable money monopoly. Any intensive competition amongst large banks may give rise to unnecessary multiplicity of banks. In Bengal particularly the branch banking has been utilised more as an evil than otherwise. Small banks are indiscriminately opening out uneconomic branches just to catch the public eye, and cases are not rare where these small banks, by opening branches in remote rural areas, are trying to exploit the unsuspecting rural folk, and to land them in disaster. It is

time that some checks are imposed upon this type of reckless ·anch banking.

Indian Money Market

The Indian money market consists of (1) indigenous bankers, (2) joint-stock banks, (3) foreign exchange banks, (4) The Imperial Bank, (5) Post Office savings banks, (6) Co-operative banks, and (7) land mortgage banks.

Indigenous banks existed in India from time immemorial. The money-lenders and shroffs form important parts of these banks. They advance loans against various forms of securities. They also discount bills and Hundies. Very often they give hazardous loans, on which high rates of interest are necessarily charged. Usually, they do not take deposits from the public, and the entire funds are privately owned and supplied by them. In spite of several adverse criticisms against them, indigenous banks perform very useful services. They are even now, practically speaking, the only source of supply of finance for rural areas. If regularly reorganised on modern principles of banking, the indigenous bankers can be made to play important roles in our banking organisation.

Joint-Stock banks are registered under the Indian Companies Act. Several such banks, mostly Indian managed, are now operating in this country. They perform normal banking functions ; they finance the internal trade of the country. Lately, some joint-stock banks are deviating from orthodox banking principles and practices, and as such are full of potential dangers. Steps should be taken to put them along right lines. We should always bear in mind that good banks are not made by good laws, but by good bankers.

The foreign exchange banks functioning in India are foreign owned and managed by foreigners. They finance the foreign trade of India by discounting foreign bills, advancing against shipping documents, etc. It is high time that some Indian banks also should undertake this line of foreign exchange business. The Central Bank of India does a negligible part of this type of work. Unfortunately, the London branch of the Central

Bank of India, which was started to work in this line was closed soon after starting.

The Imperial Bank of India, which was formed by the amalgamation of the then three Presidency banks is now functioning as a pure joint-stock bank after the passing of the Reserve Bank of India Act. It is also transacting now a large volume of foreign exchange business.

The Co-operative banks are established mainly to finance rural credit. The essential principle is to supply agriculturists with facile and cheap credit. The co-operative banks aim at securing short term finance for agriculturists, and when properly handled, they are likely to form an indispensable part of our rural economy.

Land mortgage banks are established to provide agricultural population with long-term credits against land as a security. They also aim at redeeming the mortgaged properties of agriculturists. They may be formed also on co-operative basis. In India as yet, land mortgage banks have not succeeded owing to lack of encouragement. In view of our enormous rural indebtedness and the necessity of supplying long-term agricultural credit, the possibilities of land mortgage banks, especially on co-operative plan, are very great indeed.

Postal Savings Banks

Postal Savings Banks were established during the latter part of the 19th century. The Government do not maintain any specific cash reserve in order to meet their deposit liabilities. Postal Savings Banks provide the middle class people with a means of safe custody for depositing their savings. The Post Office comes into contact with the savings of the people also through Cash Certificates.

Industrial Banks

We have already seen that a commercial bank is not suited to financing an industry which requires long-term finance. Hence, in order to help industries with financial aid, industrial banks were established. The objects of industrial banks are

manifold. They undertake to finance an industry against its assets. In order to have sound investments, it is necessary for such banks to have experts who can advise them as to the suitability of advancing loans to an industry asking financial assistance. Industrial banks also aim at controlling industries in which they have put their money by keeping their representatives on the Boards of Directors of such industries. Industrial banks also undertake promoting industries by even underwriting shares of good companies. They generally provide industrial concerns with expert advice and necessary help for efficient production. In order to achieve their objects successfully, industrial banks should have large capital which can be locked up in long period investments. They have enormously succeeded in Germany and Japan. It has been constantly pointed out that industrial banks are fundamentally necessary in India for the uplift of Indian industries. In India there is as yet no industrial bank of any importance. The untimely close of the Tata Industrial Bank put a definite brake upon the development of these banks in India. Now, these banks can only grow in India provided the Government comes forward with a direct scheme of state assistance to those banks.

Central Banks and Their Functions

The inauguration of the Indian Reserve Bank is an epoch-making event in the financial annals of our country. After a prolonged agitation and controversy extending over several years India gets at last her Central Bank, and a long felt gap in her economic life is thereby filled up.

Being entrusted with the control and regulation of the credit and currency of a country and by fulfilling its function as a banker to all other banks and the Government, a Central Bank has become fundamentally important for the healthy growth of the banking and financial institutions of a country as well as for the development of its sound economic life. The theories of central banking and its art are of recent growth. The Central Banks of progressive types all over the world are constituted after the model of the Bank of England, which serves as the

mother of central banks. The foundations of the modern English system were laid down in 1844. Beginning with the management of the currency the Bank of England acquired all other functions through a process of unconscious but steady and gradual evolution. Since then the European countries have been establishing their own central banks after the English pattern. The inauguration of the Federal Reserve System, which gave a Central Bank to the United States of America with the simultaneous consequences of restoring order and stability in the financial world of the country stamped this institution of central banks with a fundamental necessity and universal importance. The last Great War gave a set-back to this uninterrupted growth of central banking. In the wake of this political cataclysm there ensued in Europe a period of currency landslides and monetary chaos. Many of the European central banks collapsed with the concomitant repercussions in financial spheres, causing thereby currency break-down and financial dislocation. The collapse began because the central banks were cut adrift from their moorings of sound finance through political pressure being brought to bear upon the banking authorities who had to subordinate financial prudence to political exigencies. The international Economic Conference of Genoa in 1922 laid down the foundations of reformed central banks of Austria, Hungary and other European countries. The Central Bank of Germany was reformed under the Dawes plan. The inception of the South African Central Banking System in 1921 marks a great step forward in her financial history.

A Central Bank has generally the following functions, and the Indian Reserve Bank being the Central Bank for India has also been invested with similar powers. A Central Bank should possess the exclusive right of note issue. "It should be the aim of monetary policy to maintain the stability of the purchasing power of the national monetary unit as measured internally by the general level of commodity prices and by the relation of the unit to gold." In order to achieve this purpose, a Central Bank should be able at all times so to regulate the volume of currency and credit in the country as to meet adequately its

legitimate demands. "In order that the Central Bank may always possess to the fullest extent the information and power to make such regulation constant and effective, it is necessary that the management of the currency should reside exclusively in its possession and that it should not be possible for other institutions to interfere with this policy by the issue of other currencies which may disturb the position."

The Reserve Bank has been given the sole right of note issue. "It shall have the sole right to issue bank notes in British India, and may, for a period which shall be fixed by the Governor General in Council on the recommendation of the Central Board, issue currency notes of the Government of India supplied to it by the Governor General in Council, and the provisions" of the Reserve Bank of India Act, "applicable to bank notes shall, unless a contrary intention appears, apply to all currency notes of the Government of India issued either by the Governor General in Council or by the bank in like manner as if such currency notes were bank notes."

Before the establishment of the Reserve Bank the control and management of currency were entirely in the hands of the Government, and as such the regulation of our currency very often followed a course unwarranted by the legitimate economic needs of the country.

A Central Bank should be a banker to the Government. In its usual course the Government carries on several financial transactions which react inevitably upon the capital, exchange, money and gilt edged markets. Thus, for example, the Government of India is a sort of banker to the Railway Department and the Provincial Governments. It issues Postal Cash Certificates and transacts monetary business through the Postal Savings Bank Accounts. It issues treasury Bills, floats loans and remits to England the Home charges. These transactions and other allied duties should be entrusted with an authority possessing a thorough knowledge of the exchange, money, gilt-edged and capital markets, and a Central Bank is the most competent and suitable body. Hitherto the Government of India was in charge of these operations with all possible defects,

dangers and inconveniences. Henceforth the Reserve Bank will be the apter authority for the aforesaid operations. "The Bank shall undertake to accept monies for account of the Secretary of State in Council and the Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues and such States in India as may be approved of and notified by the Governor General in Council in the Gazette of India, and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance and other banking operations including the management of the public debt."

"The Governor General in Council and such Local Governments as may have the custody and management of their own provincial revenues shall entrust the Bank, on such conditions as may be agreed upon, with all their money, remittance, exchange and banking transactions in India, and, in particular, shall deposit free of interest all their cash balances with the Bank."

"The Governor General in Council and each Local Government shall entrust the Bank, on such conditions as may be agreed upon, with the management of the public debt and with the issue of any new loans."

A Central Bank should serve as a bank to all other banks of the country for the proper regulation of credit, the latter being the fundamental function of a Central Bank.

Occupying as it does the privileged position of being a banker to the Government as well as to other banks, and being entrusted with cash deposits of the latter, a Central Bank should not ordinarily compete with the other banks of the country.

Bank of England

The Bank of England is not only the central bank of England, it can be said to be the model central bank upon the basis of which the central banking institutions of the world have been established.

It was founded in 1694, and is now governed by the Bank

Charter Act of 1844, which laid down among others the following main provisions.

1. The establishment of an Issue Department.

2. Any one could take gold to the Issue Department and receive notes at the rate of £3. 17*s*. 9*d*. per standard ounce.

3. The Bank was allowed to issue fiduciary notes to the extent of £14,000,000, against securities placed in the Issue Department.

4. A bank note could not be issued at a denomination smaller than £5.

5. The Bank must publish a weekly statement showing its Liabilities and Assets in both Issue and Banking Departments.

Thus this Act completely separated the Bank's Issue and Banking Departments. The Bank could not issue fiduciary notes exceeding £14,000,000, and any further issue must be covered by gold or silver bullion. But the Bank was empowered to increase its note issue by two thirds of the amount of issue relinquished by any other bank having the right of note issue. No bank could obtain new powers of note issue after this Act. The Bank Charter Act empowered the Bank to mitigate financial crises by preventing inflation.

The Reserve Bank of India

The Reserve Bank of India was established as a *private share-holders' bank* by the Reserve Bank of India Act, 1934. It started to work from 1st April, 1935. It took from this date the management of the Indian currency from the Government of India, and established its Issue Department for the purpose. It started its Banking Department on 1st July, 1935.

Constitution

The Reserve Bank of India is a shareholders' bank having a share capital of five crores of rupees divided into shares of one hundred rupees each, fully paid-up. The entire share capital is owned by private shareholders with the exception of shares of the nominal value of two lakhs and twenty thousand rupees which have been allotted to the Central Government to be held

by them for disposal at par to Directors of the Central Board of the Bank seeking to obtain the minimum share qualification. Separate registers of shareholders are maintained at Bombay, Calcutta, Delhi, Madras and Rangoon, and each of these registers serves a separate area. At a general meeting of the Bank or at an election of members of a Local Board each shareholder has one vote for each five shares held by him subject to a maximum of ten votes. Under an amendment of the Reserve Bank Act, no person can after the 26th of March that year be registered as a shareholder in respect of any additional shares held by him whether in his own name or jointly with another person or persons in excess of a total nominal value of twenty thousand rupees. The share capital of the Bank may be increased or reduced on the recommendation of the Central Board, with the previous sanction of the Central Government and with the approval of the Central Legislature, to such extent and in such manner as may be determined by the Bank in a general meeting. The annual general meeting of the shareholders has to be held within six weeks of the date on which the annual accounts of the Bank are closed. The rate of dividend to be paid to the shareholders is limited by the Reserve Bank Act, which provides that after making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds, and such other contingencies as are usually provided for by bankers, and after payment out of the net annual profits of a cumulative dividend at such rate not exceeding five per cent. per annum as the Central Government may fix at the time of the issue of shares, a portion of the surplus shall be allocated to the payment of an additional dividend as prescribed by the fourth schedule and that the balance of the surplus shall be paid to the Central Government ; if however, at any time, the reserve fund is less than the share capital, not less than fifty lakhs of rupees of the surplus or the whole of the surplus, if less than that amount, shall be allocated to the reserve fund. Since the inception of the Bank, the reserve fund has stood at Rs. 5 crores or at an amount equal to the paid-up capital of the Bank.

The Central Board and the Local Boards.

The general superintendence and direction of the affairs and business of the Bank is entrusted to a Central Board of Directors consisting of 16 members, namely, (*a*) a Governor and two Deputy Governors appointed by the Central Government after consideration of the recommendations made by the Board in that behalf, (*b*) four directors nominated by the Central Government, (*c*) eight directors elected on behalf of the shareholders on the various registers mentioned above of whom two directors each are elected for the Bombay, Calcutta and the Delhi registers and one each for the Madras and the Rangoon registers, and (*d*) one government official nominated by the Central Government. For each of the five areas there is a Local Board consisting of (*a*) five members elected from amongst themselves by the shareholders who are registered on the register for that area and are qualified to vote, and (*b*) not more than three members nominated by the Central Board from amongst the shareholders registered on the register for that area. In exercising the power of nomination, the Board is required to aim at securing the representation of territorial or economic interests not already represented and in particular the representation of agricultural interests and the interests of co-operative banks. The functions of a Local Board are to advise the Central Board on such matters as may be generally or specifically referred to it and to perform such duties as the Board may, by regulations, delegate to it. Meetings of the Central Board are held at least six times in each year and at least once in each quarter.

Functions of the Bank

The Reserve Bank is constituted to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and the credit system of the country to its advantage. Though it is technically a shareholders' bank on a joint stock basis its surplus profits, after certain appropriations as prescribed by the Act, accrue to the Central Government. To enable the Bank to exercise its control over currency and

credit, the Bank is entrusted with the powers usually possessed by central banks. In the first place, the Bank has the sole right to issue bank notes in British India. Secondly, the Bank has the right to hold the cash balances of the more important commercial banks, all banks included in the second schedule to the Act being required, under the Act, to maintain with the Bank a balance not less than 5 per cent. of their demand liabilities and 2 per cent. of their time liabilities. Thirdly, the Bank is required to sell sterling at a rate not below 1*s.* 5-49/64*d.* and to buy sterling at a rate not higher than 1*s.* 63/16*d.* for a rupee and it has thus the obligation to maintain the stability of the external value of the monetary unit. Fourthly, the Bank has the right to transact Government business in India, the Central and the Provincial Governments being required under the Act to entrust the Bank with all their money, remittance, exchange and banking transactions, and, in particular to deposit free of interest all their cash balances with the Bank.

Besides the essential central banking functions mentioned above, the Bank is authorised to transact other business of a nature usually performed by central banks such as the acceptance of money on deposit without interest, the rediscounting of bills and the making of loans and advances under certain conditions, the issue of demand drafts made payable at its own offices or agencies, the purchase and sale of securities subject to certain restrictions, the opening of accounts or the making of agency agreements with banks which are the principal currency authorities of the countries concerned, etc. The Bank has also the obligation to supply, in exchange for currency notes or bank notes of five rupees or upwards, currency notes or bank notes of lower value or other coins which are legal tender under the Indian Coinage Act, in such quantities as may, in the opinion of the Bank, be required for circulation. The Bank also renders certain services to the Government, banks and the public such as tendering advice on banking and financial matters, arranging for the clearing of cheques for banks, and the collecting and publishing of banking and financial statistics. By exchanging information with foreign central banks, the Bank keeps in touch

with economic and financial conditions abroad. Finally, the Bank shapes its day-to-day currency and credit policy in the light of the prevailing financial conditions and the requirements of the country from time to time.

Issue of Bank Notes

The Reserve Bank maintains a separate department called the Issue Department for the issue of notes and the assets of which are kept distinct from those of its Banking Department. The assets of the Issue Department consist of gold coin, gold bullion, sterling securities, rupee coin and rupee securities. Of the total assets not less than 40 per cent. must under the law consist of gold coin, gold bullion or sterling securities, provided that the amount of gold coin and gold bullion is not at any time less than Rs. 40 crores in value. With the previous sanction of the Central Government, however, the Bank may hold gold coin, bullion or sterling securities of less than 40 per cent. of the assets for limited periods provided that it pays a specified tax on the deficiency. In actual practice, however, the Bank has so far maintained a much higher percentage of gold and sterling securities against its total liabilities in the Issue Department.

A Bankers' Bank

The next important function of the Reserve Bank is to regulate the banking system of the country. Every bank included in the second schedule has to maintain with the Reserve Bank a minimum balance equal to 5 per cent. of its demand and 2 per cent. of its time liabilities. The accumulation of these balances with the Reserve Bank places it in a position to use them freely in emergencies to support the scheduled banks whenever they seek its assistance as a lender of the last resort. To a certain extent it is also possible for the Reserve Bank to influence the credit policy of the scheduled banks through variations in their cash holdings by means of purchases or sales of Government securities or of bills in the open market as provided in the Act. Thus, for example, purchases of securities

by the Reserve Bank, other things being equal, would have the effect of enlarging the cash reserve of commercial banks, thereby enabling them to expand their loans and advances ; similarly open market sales of securities would tend to reduce the cash balances of the banks, thereby forcing them to restrict their loan operations. The Reserve Bank has also another equally important instrument at its disposal for the control of credit in the bank rate which it publishes from time to time according to the provisions of the Act and through which it can influence in some measure the structure of rates in the Indian money market. The bank rate has remained unchanged at 3 per cent. since the 28th November, 1935. In discounting for or making advances to scheduled banks, the Reserve Bank generally takes into consideration not only the nature of the security offered to it, but also the general character of the investments of the applying bank and the manner in which its business as a whole is being conducted. It is to be noted in this connection that the Reserve Bank is empowered by the Act to grant only temporary accommodation and not credit to be used for long term requirements, for speculation or overtrading. Regarding agricultural credit, the Reserve Bank Act provides for assistance to agriculture on the usual central banking principles. In the first place, the Bank cannot make advances to agriculturists direct and can extend accommodation only through scheduled banks or the provincial co-operative banks. Secondly, it is not authorized to supply the longterm needs of agriculture and the kinds of agricultural bills which it may discount are limited to those drawn for seasonal agricultural operations or the marketing of crops. Lastly, the maximum period for which it can make advances is limited to nine months so that it is authorized to lend only for short periods for tiding over a temporary or seasonal shortage of funds.

The Bank unifies in itself the control of the currency and the banking systems of the country. Prior to the establishment of the Reserve Bank, the currency system was controlled by the Government of India while the banking business of the Government was transacted by the Imperial Bank of India, which also

acted to some extent as a banker to other banks. The unified control now exercised by the Bank smoothly adjusts supplies of currency to seasonal requirements.

Exchange Obligations

The Reserve Bank is also entrusted with the duty of maintaining the stability of the external value of the rupee and for this purpose it is required to sell and buy sterling within certain rates fixed by the Act. Under the Act, the Bank is obliged to sell, to any person who makes a demand in that behalf and pays the purchase price in legal tender currency, sterling for immediate delivery in London at a rate not below 1*s.* 5-49/64*d.* for a rupee. No person, however, is entitled to buy an amount of sterling less than ten thousand pounds. The Bank is similarly obliged to buy sterling at a rate not higher than 1*s.* 6-3/16*d.* for a rupee. Moreover, the Bank has the obligation of meeting the exchange requirements of the Government for which purpose it generally purchases sterling from the scheduled banks by weekly tender or at an intermediate tap rate. This method of purchase of sterling in India affords the banks a convenient method of transferring their funds from London to India during the busy season when usually there is a keen demand for remittance to this country and, incidentally, it also tends to relieve the seasonal stringency in the Indian money market.

Banker to Government

The Reserve Bank also carries out the banking transactions of the Government. Under the Act, the Bank is obliged to accept moneys for account of the Secretary of State, the Central Government, the Provincial Governments and approved States and to make payments up to the amount standing to the credit of their accounts respectively, and to carry out their exchange, remittance, and other banking operations, including the management of the public debt.

Supply of Currency and Coin

The Bank also performs a number of subsidiary or ancillary functions incidental to its position as the apex bank of the

country, such as the supplying of different forms of currency, the extension of remittance facilities, the management of the clearing houses, the rendering of advice on financial matters, collection and dissemination of banking statistics, etc. The Bank is required to convert notes of five rupees or upwards into notes of lower value or other legal tender coin in such quantities as in its opinion are required for circulation. The Bank is also obliged to issue rupee coin on demand in exchange for notes and to issue notes in exchange for coin though this obligation has temporarily been suspended by the Central Government notification issued under the Defence of India Act.

Remittance Facilities

The Bank is responsible for the maintenance at Government treasuries and sub-treasuries as well as at its offices, branches and agencies of sufficient stocks of notes and coins for meeting the requirement of the Government as also for providing reasonable remittance facilities to the public. For the purpose of these remittance facilities all branches of the Imperial Bank and Government treasuries and sub-treasuries in India having currency chest facilities are regarded as the agencies of the Reserve Bank and are required to extend facilities to the banks and the public at rates specified by the Reserve Bank with the approval of the Central and Provincial Governments. Since 1st October, 1940, the Reserve Bank has introduced a new remittance scheme in India under which the rates have been reduced and greater facilities have been provided for. The scheme also offers concession rates of remittances to scheduled banks and approved non-scheduled banks and indigenous bankers.

Advisory Functions

The rendering of advice to Governments and banks on financial and banking matters is another function of the Bank. In its Agricultural Credit Department the Bank possesses an organisation which is continuously engaged in the study of problems of rural finance and which renders advice to Govern-

ments and the co-operative movement when consulted. The Bank also keeps itself informed regarding the activities of the scheduled and non-scheduled banks and offers them advice when required. For this purpose the Bank, if necessary, inspects such scheduled banks as voluntarily agree to an inspection of their books and accounts. It also inspects, on behalf of the Central Government, banks applying for inclusion in the second schedule to its Act with a view to finding out the real value of their paid-up capital and reserves when directed to do so by the Government. By the above means the bank endeavours to encourage the growth of sound banking practices in the country.

Banking Statistics

The Bank also acts as an agency for the collection and dissemination of financial information and statistics. Under the Act the Bank has to prepare and transmit to the Central Government a weekly account of its Issue and Banking Departments, which is published by Government in the Gazette of India. The Bank has also to publish each week, according to the Act, a consolidated statement of the returns received from the scheduled banks. Besides the above statements, from time to time the Bank supplies to the press communiques regarding treasury bill sales, clearing house figures, Government loans, etc. The Bank has taken over from the Central Government the compilation of the annual Report on Currency and Finance and, more recently, the publication of the Statistical Tables relating to Banks in India. In addition, it publishes a monthly Statistical Summary and submits to the Central Government an Annual Report of the Central Board.

Internal Organisation

The Chairman of the Board of Directors of the Bank and its Chief Executive Authority is the Governor. He is assisted in his duties by one or two Deputy Governors. The Governor and the Deputy Governors hold office for such periods not

exceeding five years as may be fixed by Government when appointing them but are eligible for reappointment.

The Agricultural Credit Department was created in April, 1935, in accordance with the provisions of the Act. Its statutory functions are (i) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, Provincial Governments, provincial co-operative banks, and other banking organisations, (ii) to co-ordinate the questions of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other banks or organisations engaged in the business of agricultural credit. At the head of the Department is the Officer-in-Charge who is assisted in its research activities by a Director of Research. For the purpose of internal administration, the Department is divided into three sections, namely, the Agricultural Credit, the Banking and the Statistical and Research Sections. The activities of the Agricultural Credit Section are three-fold. In the first place it studies all problems relating to rural finance, with particular reference to co-operation and to legislation for the relief of rural indebtedness. Secondly, the Section keeps in close touch with the co-operative movement and its officers avail themselves from time to time of opportunities for studying on the spot the special features of the movement in the various parts of India. The results of such studies are published in the form of bulletins and the Department has so far published a few bulletins on various aspects of the co-operative movement. Thirdly the Section places its services at the disposal of the Central and Provincial Governments, co-operative banks and any other banking organisations which may happen to consult it on problems connected with agricultural credit.

Clearing House

An important power which has been conferred upon the Bank is that of regulating the clearing houses for the scheduled banks. However, the Bank has not yet found it necessary to

change existing clearing arrangements. Prior to the establishment of the Reserve Bank of India, the members of the clearing houses at the more important centres in India, such as Bombay, Calcutta, Delhi, Madras and Rangoon, used to settle their clearing differences through the accounts maintained by them with the local office of the Imperial Bank of India for the purpose. The clearing houses at these centres were autonomous institutions and the Imperial Bank of India usually supervised the conduct of the clearing at these centres on behalf of the members. With the establishment of the Reserve Bank of India and the opening of the statutory accounts by the scheduled banks with the Reserve Bank, it was arranged that the members of the clearing houses at the above centres should settle their clearing differences by cheques drawn on their accounts with the Reserve Bank. Although the Reserve Bank is empowered to frame rules for the regulation of clearing houses for the scheduled banks, the Bank has not found it necessary so far to frame any such rules, and clearing houses consequently continue to retain their previous autonomous character. The Bank has, however, agreed to supervise the conduct of clearing at most centres where it has its offices and branches. At present the Bank is the conducting authority of the clearing houses at Bombay, Delhi, Madras, Rangoon, Lahore and Karachi. In Calcutta, the clearing is conducted by a supervisor appointed by the General Committee of the Clearing Banks' Association, while the clearing house at Cawnpore is managed by the Imperial Bank of India. All these clearing houses have their own rules for the admission of members and sub-members as also for the conduct of the clearing. The rules specify the hours at which the clearing shall take place, the manner of settling the credit and debit balances amongst member banks, the manner of dealing with dishonoured cheques, etc. The rules of certain clearing houses require that a bank should have a minimum paid-up capital and reserves before it can be admitted as a member, while in certain other clearing houses the admission of new members requires the affirmative vote of three-fourths of the members on roll.

Central Government Treasury Bills

These bills are a form of a short term borrowing of the Government and are usually issued for a term of 3 months. They are sold through the offices and branches of the Banking Department of the Reserve Bank (except at Delhi) either by tender or at an intermediate tap rate. The usual procedure for their sale is as follows: When it is decided that tenders should be called for, a press communique stating the date on which the tenders will be received, the amount and the currency of the bills offered for tender, and the date on which payment for accepted tenders should be made, is issued to the press for publication and is also communicated to important banks, brokers and firms. The applications for tender should state clearly the term of the bills applied for, the amount of the bills required and the rate which the tenderer is prepared to pay. The rate offered should be expressed in rupees, annas and quarter annas for each Rs. 100 nominal of the bills applied for. If tenders received are in excess of the amount offered, a proportionate allotment is made when necessary, the minimum allotment being Rs. 25,000. Treasury bills are available in the following denominations only, namely, Rs. 25,000, Rs. 50,000, Rs. 1 lakh, Rs. 5 lakhs, Rs. 10 lakhs and Rs. 50 lakhs. When it is decided to sell intermediate treasury bills on tap, an announcement to that effect is ordinarily included in the usual communique giving the results of the tenders, the rate for such bills also being announced at the same time. On maturity, the treasury bills are paid at the office or branch of the Reserve Bank from which they were issued.

The official Treasury Bills communique reads generally as follows:—

Tenders for Rs. 8,00,00,000 of three months' Government of India Treasury Bills were opened on Tuesday, the 22nd June, 1943. The total amount offered was Rs. 11,11,00,000. Tenders at Rs. 99-12-0 per cent. were accepted in full and those at Rs. 99-11-9 per cent. were allotted approximately 72 per cent. The total amount accepted was Rs. 8 crores, the average rate of accepted tenders being Re. 1-1-0 per cent. per annum.

Tenders for Rs. 8,00,00,000 of three months' Government of India Treasury Bills will be received on Tuesday, the 29th June, 1943, in Bombay up to 11 A.M. (Standard Time) and up to the close of business on Monday, the 28th June, 1943, at other centres. Successful tenderers should make payment on Friday, the 2nd July, 1943. Other conditions are as usual.

Three months' Intermediates will be sold from 23rd June to 28th June, 1943, at Rs. 99-12-0 per cent. subject to the conditions previously announced (*viz.*, sales can be stopped at any time without previous notice, if Government think it necessary).

Three months' Intermediates sold from 16th June to 21st June, 1943, amounted to Rs. 4,11,50,000.

During the week ended the 18th June, 1943, Government of India Treasury Bills for Rs. 6,83,50,000 were sold in favour of the Issue Department of the Reserve Bank of India.

When Government require temporary accommodation for shorter periods for which the issue of treasury bills is not suitable, they borrow from the Reserve Bank in the form of ways and means advances.

Scheduled and Non-Scheduled Banks

Since the inauguration of the Reserve Bank, joint stock banks in India have come to be divided into two main classes, namely, scheduled banks and non-scheduled banks. The scheduled banks, which may be compared to "member banks" in other countries, are those institutions which are included in the second schedule to the Reserve Bank Act, while the non-scheduled banks are those which are not so included. The conditions which a bank must fulfil in order to be classed as a scheduled bank are laid down in the Reserve Bank Act, which provides that the Central Government shall, by notification in the Gazette of India, direct the inclusion in the second schedule of any bank not already so included which carries on the business of banking in British India and which (*a*) has a paid-up capital and reserves of an aggregate value of not less than five lakhs of rupees, and (*b*) is a company as defined in clause (2) of section 2 of the Indian Companies Act, 1913 or a corporation

or a company incorporated by or under any law in force in any place outside British India. As on the 31st March, 1941, there were 59 banks in the second schedule to the Act and 5 banks in the second schedule to the Order. A procedure has been evolved under which the Reserve Bank assists Government in determining the eligibility of banks applying for admission to the schedule by valuing the paid-up capital and reserves after inspecting, if necessary, the applying bank's books.

Under the Act, banks are liable to be excluded from the schedule if the value of their capital and reserves fall below the prescribed minimum or if they go into liquidation or otherwise cease to carry on banking business. The inclusion of a bank in the schedule, therefore, gives no continuing guarantee of its soundness or stability, and its fitness to be retained in the schedule is liable to be tested at Government's instance, should Government have reason to believe that its affairs have deteriorated to such an extent as to make it prima facie unfit for retention.

Relations with the Reserve Bank

Under the Reserve Bank Act every scheduled bank has to maintain with the Reserve Bank a balance not less than 5 per cent. of its demand and 2 per cent. of its time liabilities. The primary purpose of these reserves is to enable the central bank to exercise some measure of control over the banking system.

Every scheduled bank has to send to the Central Government and the Reserve Bank a weekly return of its position in the form prescribed by the Act. Where, however, the Bank is satisfied that the furnishing of a weekly return is impracticable in the case of any scheduled bank by reason of the geographical position of the bank and its branches, the Bank may require the scheduled bank to furnish a monthly return in lieu of the weekly return. From the weekly returns the Reserve Bank prepares and publishes a consolidated statement as required by the Act which provides a useful guide to the prevailing money conditions in the country.

In the event of a bank failing in the maintenance of the minimum balance referred to above, the Reserve Bank can charge the bank penal interest at the rates prescribed. By a recent amendment in 1940, the penalty for default has been made even more stringent by empowering the Reserve Bank to prohibit defaulting banks from accepting fresh deposits during the continuance of the default and by penalising the directors and other officers who are knowingly and wilfully parties to a default.

A scheduled bank failing to submit the weekly or the monthly return of its position is liable to pay to the Central Government or to the Bank, as the case may be, or to each, a penalty of one hundred rupees for each day during which the failure continues.

The most important facility which the scheduled banks enjoy is that of financial accommodation in the shape of the rediscount of eligible bills or loans and advances against eligible securities from the Reserve Bank.

Statement of the Position of the Scheduled Banks as at the close of business on 20th August, 1943.

1. Demand Liabilities in India	438,80,50,000
2. Time Liabilities in India	136,53,21,000
3. Cash in India :	
(i) Currency Notes of the Government of India and Bank Notes	17,33,38,000
(ii) Rupee Coin	1,67,98,000
(iii) Subsidiary Coin	27,56,000
4. Balances with the Reserve Bank	62,02,63,000
5. Advances in India	143,87,76,000
6. Bills Discounted in India	3,61,19,000

Comparative Statement of the Position of Scheduled Banks

	(In thousands of rupees)			
	20-8-43	13-8-43	21-8-42	1-9-39
1. Demand Liabilities in India ...	438,80,50	433,79,87	296,22,03	134,36,49
2. Time Liabilities in India ...	136,53,21	136,36,64	96,88,33	102,24,34
3. Total Cash in India	19,28,92	18,65,42	11,64,08	6,69,92
4. Balances with the Reserve Bank ...	62,02,63	54,36,01	66,41,21	25,17,19
5. Advances in India	143,87,76	143,12,49	82,81,46	101,52,16
6. Bills Discounted in India	3,61,19	3,65,80	1,59,44	3,57,29

Control over the Banking system

In order to exercise adequate control over the credit and the banking system of the country, the Reserve Bank has been given the powers usually possessed by central banks. It can undertake open market operations and vary from time to time the minimum rate at which it will discount eligible bills of exchange. The actual control is, however, limited as the scheduled banks are not, as a rule, large borrowers from the Reserve Bank. The Reserve Bank can exercise greater control when the banks approach it for financial assistance as they may in that case be prepared to subject themselves to voluntary inspection. Such occasions, however, have been rare and as the inauguration of the Reserve Bank has coincided with an era of cheap money conditions, loans and advances to and discounts for scheduled banks have never reached a high figure. Among other methods by which the Bank can to some extent control the monetary and the banking system may be mentioned appropriate changes in the amount of treasury bills offered, in the amount of sterling purchased and in the amount of money in circulation but these methods are comparatively less effective and of limited applicability. Thus, though the Reserve Bank has been entrusted

with most of the powers generally given to a central bank, its actual control is limited by the peculiar character of the Indian monetary and banking system.

The Reserve Bank is also helping the non-scheduled banks by extending to them special remittance facilities at concessional rates. The conditions to be fulfilled by non-scheduled banks desirous of availing themselves of the concession are briefly as follows:

(*a*) they must be companies registered under the Indian Companies Act,

(*b*) they must be doing banking business in British India in accordance with the provisions of the Indian Companies Act relating to banking companies, and

(*c*) they must have a minimum paid-up capital and reserves of Rs. 50,000.

As on the 30th June, 1941, there were 37 non-scheduled banks placed on the approved list in consultation with the Provincial Governments.

The Bank Rate

Bank Rate is that rate at which the central bank of a country is prepared to discount from member banks approved bills. This may be called the rate at which the central bank is prepared to advance loans to other banks on approved securities. The rate must be fixed and published every week.

Market Rate means the rate at which other banks are prepared to discount bills or commercial papers, and advance loans on approved securities. The Market Rate is, therefore, always higher than the Bank Rate, which is paid to a central bank by other banks.

The Reserve Bank of India shall make public from time to time the Rate at which it is prepared to buy, discount bills of exchange or other commercial paper as allowed by the Reserve Bank of India Act. The Bank has the discretion to discount agricultural papers at a rate lower than that charged for discounting other commercial papers. This Reserve Bank Rate is the Bank Rate in India.

Weekly Return

The Reserve Bank is required by the Act to submit a weekly return to the Governor-General in Council of the account of the Issue and Banking Departments in the prescribed form. It is to be published in the Gazette of India. This weekly statement (see page 482) is the key to the conditions of the Indian money market.

AGRICULTURAL CREDIT DEPARTMENT

Preliminary and Statutory Reports

The Agricultural Credit Department of the Bank was started simultaneously with the Issue and Banking Departments of the Bank in April, 1935. The Reserve Bank Act required the Bank to make to the Central Government before the 31st December, 1937, a report, with proposals if it thought fit, for legislation on the following matters, namely:—

(*a*) The extension of the provisions of the Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking, and

(*b*) the improvement of the machinery for dealing with agricultural finance and methods for effecting a closer co-operation between agricultural enterprise and the operations of the Bank.

Though the Bank was thus given time up to the end of 1937 to make its proposals, it was thought desirable to publish a preliminary report on agricultural credit as early as possible with a view to clarifying the issues involved and ascertaining public opinion on them. The report was released for publication by the Government of India in December, 1936. This report was followed by the Statutory Report, which was submitted to the Government of India on the 15th December, 1937.

The two reports may be regarded as complementary to each other and describe the special features of agricultural finance, as well as the part which various agencies such as Government, commercial banks, money-lenders and co-operative banks play in

RESERVE BANK OF INDIA

Return for the week ended 27th August, 1943.
Issue Department (000's omitted.)

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Notes issued—			Gold coin and bullion—		
In Banking Department ...	11,67,14		In India ...	44,41,43	
In Circulation ...	754,63,61		Outside India ...	...	
		766,30,75	Sterling Securities ..	618,82,23	
					663,23,66
			Rupee Coin		14,68,11
			Rupee Securities		88,38,98
			Internal Mills and other Commercial Paper		...
Total Liabilities ...		766,30,75	Total Assets		766,30,75

Banking Department (000's omitted.)

Liabilities	Rs.	Assets	Rs.
Capital paid up	5,00,00	Notes	11,67,14
Reserve Fund	5,00,00	Rupee Coin	16,06
Deposits—		Subsidiary Coin	2,35
(a) Government—		Bills Discounted—	
(1) Central Govt. of India ...	29,07,50	(a) Internal	...
(2) Govt. of Burma ...	76,71	(b) External	...
(3) Other Govt. Accounts ...	9,76,85	(c) Treasury Bills	1,09,64
(b) Banks	60,57,14	Balances held abroad*	96,67,27
(c) Others	4,62,87	Ways and Means Advances ...	1,12,00
Bills payable	2,04,19	Other Loans and Advances ...	...
Other Liabilities	4,36,65	Investments	7,71,52
		Other Assets	2,75,93
Total ...	121,21,91	Total ...	121,21,91

Ratio of gold and sterling securities to Notes issued 86·55 per cent. * Includes cash and short term securities.

providing it. As pointed out there the bulk of the finance required by the agriculturist in India is supplied by the money-lender and to a small extent by the co-operative movement. The finance supplied by the money-lender, however, suffers from the defect that it usually carries heavy rates of interest and that the money-lender is not very often directly interested in the manner in which the agriculturist uses the money borrowed by him. As a step towards controlling the rates of interest and the money-lenders' methods of business, the reports suggested legislation for the regulation of the business of money-lending. The opinion was also expressed that on various considerations the co-operative movement was the best agency for the supply of agricultural finance and that, although the co-operative movement in India had not so far come up to expectations, it was capable of playing its proper part in the direction of supplying credit facilities to the agriculturists, provided it was reconstructed and revitalised.

Re-Organisation of the Co-operative Movement

In its Statutory Report as well as in the various bulletins and circular letters issued by it the Bank has indicated the lines on which improvement in the co-operative movement can, in its opinion, be brought about. The Bank laid down the procedure to be followed and the conditions to be fulfilled by co-operative banks desirous of obtaining financial accommodation from it. One of the conditions is that a provincial co-operative bank should maintain with the Bank cash balances the amount of which should not at the close of business on any day be less than 2½ per cent. of the demand liabilities and 1 per cent. of the time liabilities of such a bank in India and that it should submit to the Bank periodical statements prescribed for the purpose. Certain provincial co-operative banks have already had recourse to the Reserve Bank for financial accommodation.

Bulletins and Studies

The Agricultural Credit Department studies all questions of agricultural credit and is always available for consultation by the Central Government and the Provincial Governments,

Registrars of Co-operative Societies, provincial co-operative banks and others interested in agricultural finance. The officers of the Department maintain a close touch with the co-operative movement and other agencies engaged in the supply of agricultural finance by attending co-operative conferences, by personal contacts with the officials and non-officials connected with the co-operative movement and in other ways. Some of the studies made by the Department have been published in the form of bulletins. Increasing use of the Department is made by Governments of various Provinces, Registrars of Co-operative Societies and co-operative banks for consultation in connection with problems relating to agricultural finance.

Other Studies

The Agricultural Credit Department has undertaken various other studies besides those mentioned above. The subjects which it has taken up for study include the financing of agriculture by central banks and governments in foreign countries, cattle and crop insurance, consolidation of holdings, licensed warehousing, audit, inspection and supervision of co-operative societies, etc. The Department also acts as a clearing house for information on agricultural credit.

Indigenous Bankers

The Reserve Bank Act required the Bank to make a report to the Central Government, before the 31st December, 1937, "on the extension of the provisions of the Act relating to scheduled banks to persons and firms, not being scheduled banks, engaged in British India in the business of banking." The persons and firms referred to in this section are what are usually known as the "indigenous bankers." In connection with the statutory obligation imposed by this section, the Reserve Bank addressed a circular letter on the 6th May, 1937, to all scheduled banks and indigenous bankers with a view to eliciting their opinion on the possibilities of linking the indigenous banker with the Reserve Bank. In the light of the replies received, the Bank formulated its draft scheme dated the 26th August, 1937, for

the direct linking of the indigenous bankers with the Reserve Bank based on the recommendations of the Central Banking Inquiry Committee and the legislation affecting banking companies in the Indian Companies Act. After taking into consideration the replies received, the Bank submitted its report to the Central Government as required by the Act. This report explained the reasons why it has not yet been found possible to recommend legislation for extending to indigenous bankers the provisions of the Reserve Bank Act relating to scheduled banks.

Questions

1. How would you ascertain the financial standing of a customer with whom you had no previous dealings? If you have received an order from a man to whom after enquiries, you consider credit is not advisable, how would you deal with the matter? (B. Com. Cal., 1924.)
2. State how you would draw a cheque ensuring its payments to no other person than the payee himself. What is the effect of making a crossed cheque "not negotiable?" ((B. Bom. Cal., 1924.)
3. The rate of interest for the first half of the Calendar year is different from that during the second on current accounts in some banks in Calcutta. Give your views as to the probable reasons for the same. (B. Com. Cal. 1932.)
4. Can Banks help to develop the Inland and Foreign Trade of a country? Explain fully by giving suitable examples, showing clearly the different steps taken by Bankers to safeguard their interests. (B. Com. Cal., 1934.)
5. What is an Industrial Bank? (M.A. Com. Cal., 1929.)
6. What part is played by the exchange banks of India in financing international commerce? (B. Com. Cal., 1928).
7. Describe the different methods in which a bank can function as money-lender. Use the exact technical terms. (B. Com. Cal., 1927.)
8. Estimate the services of a Clearing House organisation for banks. (M.A. Com. Cal., 1929.)
9. Explain clearly how movements in Bank Rate affect prices of securities in the Stock Exchange. Also show how trade is affected by a low Bank Rate. (B. Com. Cal., 1931.)
10. A Bank advances money to a manufacturer on hypothecation of all his manufactured goods. Discuss what practical steps the Bank should take to safeguard its own interests. (B. Com. Cal., 1941.)
11. Compare the function of a Bank with that of an Insurance Company in financing trade and industry. (B. Com. Cal., 1932.)

12. What are the duties and responsibilities of any of the following :—
(*i*) A Bank Manager; (*ii*) A Chief Agent for an Insurance Company and (*iii*) A Board of Directors? (B. Com. Cal., 1933.)
13. What are the principal functions of a Bank? How does a Bank help the promotion of trade and commerce? Has it got any power to ruin a business? (B. Com. Cal., 1943.)
14. What are the principal functions of a Bank? How does a Bank help the promotion of trade and commerce? Has it got any power to ruin a business?
What are the functions of an Exchange Bank? (B. Com. Cal., 1943.)
15. Describe the present position of the bill market in India. To what extent has the advent of the Reserve Bank facilitated its growth? What are the impediments to India's quoting prices in rupees in foreign trade, and how can these be removed?
(M.A.. Com. Cal.,, 1943.)
16. Can you give a broad classification of the banks operating in Calcutta and explain briefly the functions of each?
(B. Com. Cal., 1945.)

CHAPTER XXIX

METHODS OF REMITTING MONEY

Remittance by Transport

The straight method of sending money would be for the debtor to send actual legal tender to creditor. This direct method is hardly practised now-a-days. In international payments domestic currencies of one are not acceptable by nationals of another, and hence the system of paying through foreign exchanges is prevalent in international trade. In inland trade, however, it is risky and inconvenient to send money by railways, steamers or any other similar conveyances, though the movement of crops is financed in India in several rural areas by this direct transport of money. Hence, there have evolved various methods of remittance through the Government, Post Office, Banks, etc.

Transfers through Government Treasuries

Very often Government Treasuries sell to the public "Supply Bills" and Transfers drawn upon other Treasuries provided the latter have sufficient money in return for a certain percentage of commission.

Postal Remittance

Remittance by postal money orders is convenient for sending small sums of money, but it is very expensive when large sums are involved. Money may also be sent by means of registered and insured Postal Post.

Transfers through Reserve Bank and Imperial Bank

The Reserve Bank of India issues and pays telegraphic transfers and Bank-post bills. The Imperial Bank of India purchases demand drafts and pays drafts and telegraphic transfers.

Cheques

The major part of remittance in modern society is done by banks through cheques, bills of exchange, drafts, etc. When a cheque is payable to another person, it must be endorsed by the payee on the back before payment. Crossed cheques can be cleared only through a bank ; specially crossed one through some specified bank. "Not Negotiable" marked cheques cannot give a title to a person who steals it. Thus we find that cheques are very convenient and cheap methods of remitting money.

Bills of Exchange

We have already explained in previous chapters that international indebtedness is settled mostly by bills of exchange. A bill of exchange is an order addressed by a creditor to a debtor asking the latter to pay a certain amount of money either immediately or after some time to a named person, his order or to bearer. If the bill is to be paid immediately on presentation to the drawee it is known as a sight or demand bill. In other cases, the bill is usually signed by the drawee across it, then it is known to be accepted. Generally, exporters present bills to a bank for collection or he may sell the bill to a bank in which case it is known as a discounted bill.

Banker's Drafts

A bank may draw a bill of exchange upon one of its branches or agents asking him to pay a specified sum of money either on demand or after a stated period. This kind of banker's draft is usually payable on demand.

Mail and Telegraphic Transfers.

Mail Transfer *i.e.* M. T. refers to an order sent by mail given by a bank upon its agent or branch in a foreign centre to pay a certain sum of money either on demand or after a stated period. As this method may involve delay owing to missing of a mail, Guaranteed Mail Transfers or Guaranteed Payments

are now practised, where banks guarantee payments on a stipulated date. Such transfers are, therefore, advised by cable and not by mail. Dominion Banks are practising Air Mail Transfers and Guaranteed Air Mail Transfers. Telegraphic transfers *i.e.* T. T. means that the bank advises its branch or agent by cable to pay a certain sum of money. This method of remittance is very quick, and expensive, too, because cable is costly. Generally, T. T. are sold in foreign currency. Thus, for example, an Indian merchant can buy £100 T.T. in exchange of rupees in order to pay an English manufacturer in England.

Questions

1. What are the different methods of remittance of money in India?
2. Explain the utility of T. T. for transferring funds.

CHAPTER XXX

NEGOTIABLE INSTRUMENTS

Definition

A *negotiable instrument* refers to an instrument, (a contract in writing) which is transferable either by mere delivery, or by endorsement and delivery, if it is payable to order, by law, or custom legally recognised. The following must be the features of a negotiable instrument. (1) (*a*) It should pass from one person to another *by mere delivery* if it is payable to bearer, or (*b*) *by endorsement and delivery* when it is payable to order. A non-negotiable instrument can be transferred only by legal formalities. (2) The holder of a negotiable instrument is deemed *prima facie a holder in due course,* that is to say, the holder received it for value, and in good faith, and at the time of receiving it free from any notice of any defect in the title of the transferor. In order to show that the holder is not a *bona fide* one, others will have to prove their case. A holder of a negotiable instrument, holds it *free from equities,* viz., free from any defect in the title of the transferor, or any other previous holder. In case of a non-negotiable instrument, the present holder does not possess a better title than the one from whom he gets it. Hence, if a stolen property is possessed by anybody, the latter's title remains defective even though he received it for value. (3) A holder of a negotiable instrument is *prima facie* assumed to have acquired it *in consideration for value,* and (4) he is entitled to *sue upon it* in his own name, notwithstanding any previous notice being given to the person, who is liable to pay on the instrument. Whereas if the holder of a non-negotiable instrument sues upon it, he is to prove affirmatively that he gave consideration for it.

In order to show that the holder of a negotiable instrument is not a *bona fide* holder for value, it must be proved either (*a*) that he had actual notice of some defect of title on the part

of the person who passed it on to him or (*b*) that he had constructive notice of some defect of title of the previous holder in the sense that the circumstances under which it was negotiated should have aroused a sense of suspicion in any prudent man about the genuineness of the negotiation.

Broadly speaking, negotiable instruments include bills of exchange, cheques, promissory notes, dividend warrants, bearer bonds, scrip certificates entitling bearer to shares in a company, Treasury, Exchequer bills, etc. Share certificates, bill of lading and postal orders are not negotiable instruments, though transferable.

BILL OF EXCHANGE

Definition

A bill of exchange denotes an unconditional order in writing, given by one person signing it, requiring another to whom it is addressed to pay on demand, or at some future date, a certain sum of money to, or to the order of a stated person, or to bearer. If other things are also ordered to be done in addition to the payment of money, it ceases to be a bill of exchange.

Parties to a Bill

There are *Drawer, Drawee and Payee,* to whom proceeds are payable. The drawer may be himself the payee. The drawee becomes the acceptor after accepting the bill. Any other person who puts his signature on the back of the bill becomes an endorser. Though the payee is not a party to a bill, he becomes liable as an endorser after signing the bill on the back.

Tenor, Date, Amount

A bill is payable on demand, presentation, sight, or on the expiry of a certain time after demand, sight or presentation, or at some fixed date. The time within which it is payable is known as its *Tenor*. It may be payable to bearer or order. It usually contains a date and states that it is drawn for consi-

deration, but even if these two things are not found in a bill, it does not become an invalid bill. If there is any discrepancy between figure amount and amount in words, the latter is taken to be correct, unless it is corrected by the drawer.

Advantages

We have already explained in previous chapters (Chs. X & XI) how international payments are made through bills of exchange, when they are known as Foreign Bills. Internal trade may also be financed by means of bills called inland bills which are largely used in India in form of Hundies.

Bills in Sets

Bills of exchange are generally drawn in certain forms. Inland bills are usually drawn singly, while foreign bills are drawn in duplicate or triplicate. This latter method is known as drawing *Bills in Sets*. Then each bill is sent to the drawee by different mails in order to ensure that he may surely get at least one. When one is transacted, the others become inoperative.

INLAND BILLS

Accepted. Bose & Co., 10th July, 19...

Stamp

No. 4201 *Calcutta, July 5, 19...*
Rs. 500/-

One month after date pay B. C. Kar or order the sum of rupees five hundred only (Rs. 500/-) for value received.

To

Messrs. Bose & Co.,
Johnson Road,
Dacca.

S. Ghosh.

The word "Accepted" may or may not be put in, the mere signature is good enough for acceptance.

FOREIGN BILL IN A SET OF THREE

(Original)

Stamp

N. 40 2, Church Lane,
£200 Calcutta, 12th July, 19....

Sixty days after sight of this first of Exchange, Second and Third of the same tenor and date unpaid, pay to the order of Messrs. Jhon & Co., the sum of two hundred pounds for value received.

To

Messrs. Jackson & Co.,
Avenue Street,
London, W. 1

S. Dutt.
Dutt & So.

(Duplicate)

Stamp

N. 40 Calcutta, 12th July, 19....
£200 2, Church Lane,

Sixty days after sight of this first of Exchange, First and Third of the same tenor and date unpaid, pay to the order of Messrs. Jhon & Co., the sum of two hundred pounds for value received.

To

Messrs. Jackson & Co.,
Avenue Street,
London, W. 1

S. Dutt.
Dutt & So.

(Triplicate)

Stamp	No. 40 £200	2, Church Lane, Calcutta, 12th July, 19....

Sixty days after sight of this Third of Exchange, First and Second of the same tenor and date unpaid, pay to the order of Messrs. Jhon & Co., the sum of two hundred pounds for value received.

To

Messrs. Jackson & Co.,

Avenue Street,

London, W. 1

S. Dutt.
Dutt & Co.

When a bill is singly drawn then another has to be drawn if the first one is lost, and the payee undertakes to indemnify the drawer for any loss if the first one is recovered.

Acceptance

A bill must be *Accepted* properly by the signature of the drawee before the latter becomes a party to the bill. Signature is sufficient for the acceptance of a bill. Any other person than the drawee can sign by authority, that is, by procuration. Signature by mark, stamp, print, etc. is considered to be a valid one. The drawee must be given 48 hours within which he must decide whether to accept the bill or not. If any person accepts a bill by forging the signature of the drawee it becomes an invalid bill. But once a bill has been accepted, the drawee cannot avoid his responsibility on the plea that the drawer's signature has been forged, even though if any be really so done.

Acceptance may be general or conditional. It is a general acceptance when the bill is accepted as it is drawn. If it is accepted with modification it becomes a conditional acceptance,

which may be any of the following. (*a*) Payment may be conditional upon the fulfilment of certain conditions. (*b*) The bill may be accepted only for a part of the full amount of the bill. (*c*) The time of the bill may be changed. (*d*) Only some of the drawees of a bill may accept the bill. (*e*) The bill may be accepted on condition that payment will be made at a certain place. This place of payment is called the domicile of the bill. The drawer or holder has always the right to claim an unconditional acceptance and regard any bill as invalid which has been conditionally accepted. A bill may be accepted before it has been signed by the drawer. But if any holder of a bill agrees to a conditional acceptance, then the responsibility of the drawer and endorser, if there be any, ceases to exist.

Examples of Acceptances

1. Accepted payable at Midland Bank. Bose.	1. This is general acceptance without qualification.
2. Accepted payable on delivery of bill of lading at Midland Bank. Bose.	2. This is conditional acceptance, payment being dependent upon the delivery of the stated document.
3. Accepted for £200 only. Bose.	3. This is part acceptance that is agreeing to accept and pay part of the bill only.
4. Accepted payable at Midland Bank and there only. Bose.	4. This is local acceptance, agreeing to pay at a particular place only.
5. Accepted payable in four months. Bose.	5. This is qualified regarding time; bill payable after four months though drawn for three months.

Endorsement

Endorsement of a bill may be (a) blank, when it is endorsed by mere signature. Then it becomes payable to bearer. It may be (*b*) special or in full that is when it is endorsed in favour of an endorsee to whom or to the order of whom payment is to be made. (c) It is known as restrictive endorsement when the negotiability of a bill is ended or restricted by the endorser, or when the endorser appoints the endorsee to endorse the bill on his behalf or receive payment on his behalf. Thus for example Mr. Bose makes the restrictive endorsement in the following way. "Pay the amount to Mr. Dutt only ; or pay Mr. Dutt for my use ; or the amount must be credited to Mr. Dutt." Thus the further negotiability of the bill as far as Mr. Dutt is concerned is finished.

Conversion of one type of endorsement into that of another is permissible.

The endorser is liable for the acceptance of the bill, and guarantees its payment, unless the endorsement is qualified by words "without recourse" or similar such words, when the liability of the endorser ceases. The endorsement is generally made on the bill or on a slip of paper called "Alonge" attached to it.

Holder

A bill is transferable from one person to another, and when it is so transfered it is said to be *Negotiated*. Bill of exchange is always negotiable unless some endorsement is made to render it not negotiable. The person to whom the bill is negotiated is the *Payee* or the *Holder*. A holder is considered to be a holder in due course if he receives it (*a*) before it became overdue or befor receiving a notice that is was dishonoured, (*b*) for valuable consideration in good faith and without knowing any defect of previous holder and (*c*) examining that the bill was a regular one on the face of it.

Presentation

When the bill is presented to the drawee for acceptance or payment, it is known as *Presentment of the Bill*. The bill must

be presented in due time at the proper place by the holder, and in default of due presentment the responsibility of the acceptor and drawer ceases. Delay of presentment caused not by negligence of the holder is permissible. A Sight Bill is presented for acceptance, and the period of payment is counted from the date of sight.

Dishonour

A bill is said to be *Dishonoured* when either acceptance or payment is refused, or where presentment is unnecessary because the bill is overdue and unpaid. Notice of dishonour must be communicated within a reasonable time, and failure to note and protest in case of dishonour of a foreign bill absolves the drawer and endorser of all responsibilities. A notice of dishonour issued by the holder gives right or recourse to prior endorsers and subsequent holders against the party to whom the notice of dishonour is given.

Noting and Protesting

Noting is preliminary to *Protest*. If a promissory note or a bill of exchange is dishonoured, such dishonour must be *Noted* and then *Protested* by a notary public either upon the instrument or a paper enclosed therewith. Such a note must be made within a reasonable time of dishonour, giving date of dishonour, its causes, etc. After Noting, the notary may prepare a Protest attesting the dishonour and specifying the intention of the holder to recover the amount. A Protest can be made any time after Noting. Noting and Protesting are considered as evidence of dishonour by law courts. When a public notary is not available, any householder of the place may certify the dishonour with two witnesses attesting the dishonour by signatures. This kind of certificate is known as a *Householder's Certificate*.

If it is a demand bill, it should be presented for payment within a reasonable period. In case of other bills, three days are allowed as grace days counting from the day when the payment becomes due from the date marked on the bill.

Liability

Any person competent to make a contract may bind himself by drawing, accepting, endorsing, and delivering a negotiable instrument. When a bill is accepted, the *Primary Liability* rests upon the acceptor. If the bill is dishonoured, the holder will realise it from the last endorser, who in turn will realise it from the previous one until it is finally paid out by the drawer. Then the drawer will realise it from the drawee. Endorsers become liable in order of endorsements. If the bill is payable to bearer by mere delivery, then the holder is not liable as a party to the bill provided it is negotiated in good faith.

The liability of a party on a bill to a holder ceases to exist under the following circumstances:—(*a*) if the holder cancels such acceptor's or endorser's name with the object of discharging him from all liabilities on the bill ; (*b*) if the bill is payable to bearer and such maker, acceptor or endorser pays the bill in due course ; (*c*) if the holder allows the drawee more than 48 hours to accept the bill or not without previous consent of other parties liable for the bill ; (*d*) if the holder agrees to a qualified acceptance without consent of parties liable for the bill ; (*e*) if the holder makes any material alteration in the bill ; (*f*) if the bill is held by the acceptor in his own right at or after maturity *i.e.* the date on which the payment of the bill falls due.

Acceptance and Payment for Honour

When a bill is noted or protested for non-acceptance or non-payment, any person may accept or pay the bill for the honour of a party liable for the bill. In such a case the name of the party for whose honour it is so done must be declared before a notary public. All parties subsequent to the party for whose honour the bill has been paid are discharged from all liabilities on the bill. Any person who so pays for honour becomes the holder of the bill with all rights of a due holder. He can afterwards realise the money which he pays with interest from the party for whose honour the bill has been paid. This kind of acceptance or payment for honour is known as *Acceptance for*

Honour Supra Protest or *Payment for Honour Sup* person who generally so accepts or pays in case of ntamped paper or non-payment is generally mentioned in the bill tto a bill, the acceptor or an endorser. Such a person is usually ng the docu- *Drawee in Case of Need,* who is resorted to as a , stamp, and the primary drawee refuses to accept or pay the b cceptor or drawee in case of need may be or may not be mentione nks bill. The holder may or may not go to this drawee in case of need in the United Kingdom. In India, however, a bill is not considered to be dishonoured until this drawee in case of need either refuses to accept or pay the bill. This drawee may accept or pay the bill in India even before protest.

Discounting Bills

Generally the holder of a bill discounts his bill with a bank. The bank advances the amount of the bill minus interest accruable on the amount paid In discounting a bill, a bank becomes the holder in due course. A bank will not discount a bill unless the drawer, acceptor and endorser are parties of good credit and standing.

Renewal of Bill

Inland bills may be renewed either fully or partly. When an acceptor feels that he may not be able to pay on maturity, he requests the drawer to draw a fresh bill for the full amount or a part thereof when part-payment has been already made. This the drawer agrees to do if the drawee is prepared to pay the due interest upon the due amount for the period extended. If the bill is already discounted, the drawer makes corresponding arrangements with the discounting bank.

Documentary and Clean Bills

When a bill of exchange is attached with documents *e.g.*, bill of lading, invoice, etc., which are required to take delivery of goods against which the bill is drawn, such a bill is called a *Documentary Bill*. If no document is attached to a bill it becomes a *Clean Bill*.

Liability and Reverse Council Bills

Any persoetary of State for India draws bills in Indian self by drawin Indian Treasuries, and sells them in England to tiable instrumd others in exchange of sterling. They are usually rests upon thghest bidder after receiving tenders from prospective will realise sisting mainly of bankers and bill brokers who want from mit money to India on behalf of their clients. In this way the English merchants can pay Indian exporters for imports to England as well home charges are paid to England by India. These bills are called *Council Bills.* Similarly, when bills are drawn by the Government of India upon the Secretary of State for India in sterling, they are called *Reverse Council Bills* or *Reverses.*

"Sans Frais" and "Sans Recourse"

Sometimes, the drawer may advise the collecting banker not to spend money for noting and protesting in case of dishonour by putting the words *"Sans Frais"* on the bill. These words should be used in a separate paper from the bill, so that the acceptor may not know that the drawer has any doubt about the acceptor. When a person endorses a bill without incurring any liability thereon, he must prefix his endorsement by the words *"Sans Recourse"* or *"Without Recourse"*.

Retiring Bill

The practice of retiring a bill has evolved mainly in connection with D/P bills. A merchant who has accepted a D/P bill may desire to take delivery of goods before the maturity of the bill, but he cannot do so unless he pays the bill when documents of title to goods will be given to him. Hence, the merchant will get into touch with the holder, and communicate to him his desire to *"Retire"* the bill. If the holder agrees, then the merchant will "Retire" the bill by paying the bill before maturity at a price which is generally calculated at an amount less than that on maturity. Then documents of title to goods are delivered to him.

Inchoate Bill

When a simple signature is put on a blank stamped paper and handed over to a holder for converting it into a bill, the holder is assumed to possess the right of converting the document into a bill the amount being covered by the stamp, and the blank signature can be utilised for a drawer, acceptor or endorser. A holder has also the right of filling up any blanks in a bill. In order to bind any party to such a bill who becomes a party prior to the filling up then the latter should be done within a reasonable time. But if such a bill is negotiated, then the holder becomes a holder in due course and the bill is considered to be a regular one. Such a bill must be given delivery, actual or constructive before any rights can accrue to a holder. A delivery is presumed to be a valid one when the bill is a complete and regular one at the time it left the party to be charged. This right does not hold good in case of an inchoate bill or instrument.

Accommodation Bills

An accommodation or a "fictitious" bill as it is sometimes called, denotes a bill, where the drawer, acceptor or endorser puts his signature upon the bill without receiving any value for the same, just in order to lend his name to some other person. Any one who thus signs a bill is known as its accommodation party. An accommodation party to a bill becomes always liable on the bill to any subsequent holder for value, and it is of no importance whether the holder took the bill knowing such party to be an accommodation party.

Hundies

Hundies are peculiarly typical of India, and are practically what are called inland bills of exchange. When a Hundi is strictly a bill of exchange, and satisfies all conditions of a negotiable instrument, it becomes fully a negotiable instrument. There are various types of Hundies prevailing in India.

The most original form in which a Hundi was drawn is

what is known as a *Jokhmi Hundi.* It is drawn in Vernacular and is a *conditional* order to accept or pay, provided the commodities, against which it is drawn are delivered to the consignee in proper order. It is as such not strictly a bill of exchange. This type used to be drawn during earlier days, when communications and means of transport were hazardous, and was intended to protect the drawee, who was free either to accept or pay, according to the safe arrival of his wares.

Amongst Hundies which are in vogue in India, there is broadly speaking, a two-fold classification, namely, *Darshani* and *Muddati* Hundies. The former are so-called sight drafts, payable on demand or at sight. The latter serve as usance bills, and are payable after a determinable date. It is generally the practice to draw these Hundies only in original, and no copies are made. A copy is made only in case of loss or damage of the original, and the copy bears explicit mention of this fact. It is not even necessary that any required succeeding copy should be made in identical form and content with the original one.

The most popular form of a Hundi in this country is an order Hundi, or a *Shahjog* Hundi as it is called. A *Shahjog* Hundi is made payable to a Shah (a respectable person), that is to say, it must be endorsed by the payee, who ought to be a person of respectability and position.

Then we have got what is known as a *Dhanijog Hundi.* It is a bearer Hundi, and as such payable to bearer. This type is not commonly practised.

There is another type of Hundi, where protection is secured beforehand in case of dishonour by the drawee, by attaching either a letter to the Hundi, or by mentioning therein the name of a person, other than the drawee, of the place of the drawee. In case of dishonour by the drawee, it is endorsed for honour either by the addressee of the letter attached to the Hundi or by the specified person in it. This type of Hundi is known as *Zickri Hundi.*

A Namjog Hundi contains the descriptive roll of the payee, and hence payable only to the payee specified in it.

Promissory Notes

Definition

A promissory note denotes an *unconditional* promise in writing, signed by the maker of the note, to pay on demand, or at some future date a certain sum of money to a specified person, his order or to bearer.

Liability

Liability of a promissory note may be joint, or joint and several. The maker of a promissory note may be a single individual, or more than one. In the latter case, the liability of the makers is joint, or *Joint and several,* according to the wordings of the promissory note. Thus, if it is worded "We promise to pay, etc.," it is a case of joint liability, while if it be "I promise to pay, etc." and then every maker signs it, the liability therein is one of joint and several. In the former case, the creditor has got only one right of action, and must sue all makers in one action. If he leaves out any and the judgment fails, he can no longer proceed against the one left out. But in case of joint and several liability, the creditor has the right of action against each singly, and also all jointly. If he sues one, and judgment fails, he can again proceed against the rest.

Bills and Promissory Notes

Though both are *negotiable credit instruments,* bills are quite distinct from promissory notes. In a bill of exchange, there is a drawer and an acceptor, and drawer is only *secondarily* liable on the bill. In a promissory note the maker is the drawer, and is *fully liable* for it. A bill is an order to pay, while a promissory note a mere *promise to pay.* Bills are accepted if payable other than on demand, whereas promissory notes are *never accepted. Conditional acceptance* is possible in bills, but notes must be made *unconditional.* Acceptors of a bill are jointly liable, while makers of notes may be either jointly or jointly and severally liable.

HUNDI

Rs. 200/-

(60) Sixty..........................Days after Date Without Grace Pay to the order of Bose & Co., Calcutta at their office the sum of Rupees Two hundred only....................for value received in cash and that with interest @ 2 per cent. per month after due date.

Stamp.

Signature............................

PROMISSORY NOTE

Rs............... Calcutta....................19....

On Demand I/We jointly and severally promise to pay Bose & Co., Calcutta, or order the sum of Rupees.................... ....only for value received with interest thereon at the rate of...........per cent. per annum from this date until the date of repayment with monthly half-yearly rests.

Stamp

Dated, Calcutta, Signature.......................

The 10th July, 1943.

CHEQUES

Definition

A cheque is a bill of exchange drawn upon a banker payable on demand. It is an unconditional order addressed by one person to another that is by a customer upon his bank to pay or, to his order a certain sum of money.

A *Bearer Cheque* is payable to bearer and it is so when (*a*) it is drawn payable to a stated person, bearer or when no name is inserted at all, (*b*) the last endorsement is in blank, (*c*) the payee is a non-existent person, e.g., pay Rent. When a cheque bears on its face that it is payable to bearer, it cannot be converted into an "Ordered" cheque by subsequent endorsement, though the Bombay High Court holds a contrary view. Any way the position is not yet very clear. But a cheque which

bears "Order" on face of it, it can be converted into a bearer cheque by an endorsement of the drawer to this effect.

An "Order" cheque means that it is payable to a stated person or to his order. If a cheque is made payable to a person, and he endorses it, then it becomes payable to his order. If a cheque is made payable to a person with the addition of words

EXAMPLES OF ENDORSEMENTS

Endorsement by Payee	*Meaning of such Endorsements*
1. B. Dutt.	1. Blank endorsement meaning payable to bearer.
2. Pay S. Roy or Order B. Dutt.	2. Special endorsement.
3. Pay S. Roy only B. Dutt.	3. Restrictive endorsement.
4. Per. pro. Ghose & Co. B. Dutt, Manager.	4. Per procuration endorsement.
5. Pay Ghosh & Co. or Order B. Dutt.	5. In a partnership, signature of any partner is sufficient and it binds other partners.
6. B. Dutt, Executor of Late C. C. Bose.	6. Executor's endorsement when there is only one executor.
7. For self and co-executors of Late C. C. Bose. B. Dutt.	7. Endorsement of one executor is sufficient and it binds others.
8. S. Sil. N. Sen. K. Roy. } *Trustees*	8. Endorsements of all trustees necessary.
9. Kamal Das *(Finger tip) witnessed by B. Bose, 2, Church Lane, Calcutta.	9. Endorsement of an illiterate payee.

No..............

...................19..

....

....

....

Rs............

FOL

No.............. CALCUTTA...... ....19...

THE BANK LIMITED

ब्यंक लिमिटेड CALCUTTA ব্যাঙ্ক লিমিটেড

Pay...*or Order*

Rupees..

....

ENTD

Rs..................... *Signature,*

....

....

....

Rs.............

FOL.............

No...............

CALCUTTA....................19...

THE BANK LIMITED

ब्यंक लिमिटेड CALCUTTA ব্যাঙ্ক লিমিটেড

Pay.. or Bearer

Rupees..

....

ENTD.............

Rs.....................

Signature.

like, "Pay Bose only", "Not Transferable", etc., then the cheque is payable only to the payee, because this kind of endorsement is called a *Restrictive Endorsement*. If the payee of an order cheque, signs it on the back, it becomes a blank endorsement in which case the cheque becomes payable to any person. But such a blank endorsement may be converted into a special one by writing some special directions over the endorser's signature, *e.g.*, Pay Ghosh & Co. Then it becomes a special endorsement, and the cheque cannot be cashed without the endorsement of Ghosh & Co.

The payees may be either joint or alternative, *e.g.*, Pay S. Bose and N. Sen, in which case endorsement of both is required ; pay S. Bose or N. Sen, then either may endorse and receive payment.

Post-dated and Ante-dated Cheques

When a cheque is drawn bearing a date much later than when so drawn is a post-dated cheque. The object of such a cheque is to delay payment. An ante-dated cheque refers to a cheque, which when drawn bears a date earlier than the date on which it is made out.

Crossed Cheques

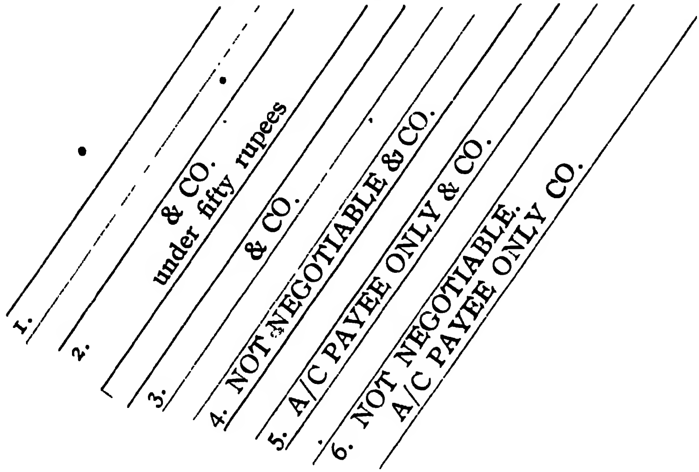
A cheque is said to be a *Crossed* one, which bears across its face two parallel transverse lines, and in between them may or may not appear the words "And Co.", "not negotiable" or both. Such crossing is known as a *"General"* crossing. If in addition, other words like names of a bank appear, the crossing is called a "Special Crossing".

The fundamental object of crossing a cheque is to make it payable to the payee only through the intermediary of a bank.

When a cheque bears words like "not negotiable", the cheque ceases to be a negotiable instrument, *viz.*, the holder of a "Not Negotiable" marked cheque can possess no better title to the cheque than anyone else from whom he took it. If such a cheque is stolen the thief acquires no good title to it. Such

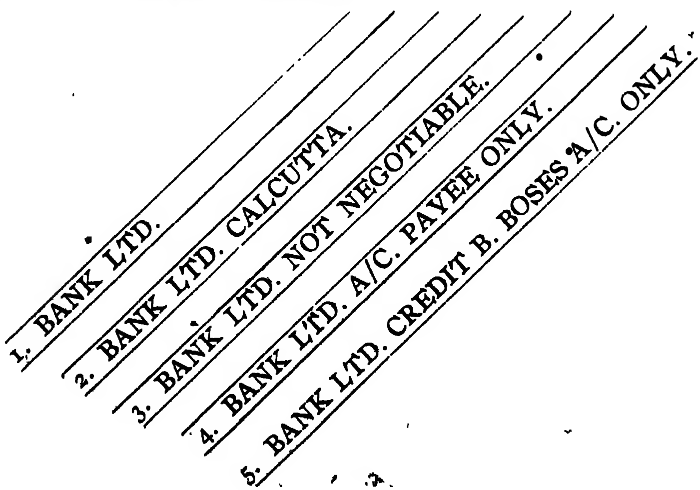
markings are made only on a crossed cheque. A "not negotiable crossed" cheque is however transferable.

Specimen of General Crossings



Where "*A/C Payee*" is marked, it means that the collecting banker is asked to collect funds on such a cheque, and place them to the credit of the payee only.

Specimen of Special Crossings



"Bank Ltd." means that the cheque can be cleared only through the named Bank, or even the named Bank in a particular place e.g., Bank Ltd., Calcutta.

A cheque may be crossed by the drawer, endorser or holder.

If a crossed cheque is cleared other than through a bank, the responsibility lies with the paying bank, who must bear losses if there be any.

Presentation

A cheque is payable in due course by the drawee banker, when it is drawn in proper order, sufficient money being available against it to the drawer's a/c., or payment thereon is arranged by the drawer by means of an overdraft a/c. Cheques should be presented for payment within a reasonable time.

Countermand of Payment

Countermand of payment, or the stopping payment of a cheque may be made by the drawer by giving notice to that effect to his drawee bank before the cheque is paid, by a notice of customer's death, the receipt of a garnishee order, or notice that the customer has become a bankrupt.

Forgery

If a cheque is cleared and paid by means of a forged signature of the drawer, the banker is liable. If the amount is altered by the payee, the banker is liable for any excess payment over what is actually intended to be paid by drawer, provided it is proved that the customer exercised all care and scrutiny to stop any forgery. Hence, in order to safeguard their interests, the banks always insist that any alteration must be initialed by the full signature of the drawer.

When a drawer's signature is forged, a bank should be able to detect the forgery, and as such he should bear liability in the matter. It is different in case the endorser's signature is forged, because a bank cannot be expected to know one and every endorser. Hence, the law is that if the bank pays on the signature of any endorser, the cheque is always deemed to be

paid in due course, if the bank has paid it in good faith and in the ordinary course of business.

If a cheque requires any endrsement, it is generally made on the back of a cheque, and should be made regularly, viz., endorser's signature should be exactly spelt in the same way as the name of the payee appears on the face of the cheque.

Blank Cheques

If the amount to be paid is not known, a drawer gives to the payee a "blank" cheque, that is, the amount of the cheque is kept blank to be filled in by the payee. But, in order to protect himself, the drawer generally puts on the top or at the bottom of the cheque the words 'Under Rs. 100' or "Not exceeding Rs. 100".

Negotiability

A cheque is a negotiable instrument and transferable by mere delivery if it is payable to bearer and by both endorsement and delivery if it is an order cheque.

Cheques should be presented for payment within a reasonable time.

Paying Banker

The duty of a bank is to honour a cheque drawn upon it by his customer to the extent of the latter's balance in the current account or to the limit of an agreed overdraft on conditions that the (*a*) cheque is properly and correctly drawn, (*b*) there is no other circumstances releasing the bank from paying.

A bank will not pay under the following conditions if (*a*) customer countermanded payment, (*b*) bank is notified about the death or insanity of the customer, (*c*) bank is notified about the bankruptcy of or a bankruptcy petition against the customer ; a notice of winding-up petition or passing a resolution of winding up in case of a registered company, (*d*) it receives information that the customer is an undischarged bankrupt, (*e*) it receives service of a garnishee or other order attaching the customer's credit balance, (*f*) it receives notice of an assignment by customer

of his credit balance, (*g*) it comes to know that the customer is applying the funds in breach of a trust, (*h*) there is any defect in the title of the person presenting the cheque.

When payment is refused, the bank generally assigns reasons for such refusal in a printed slip as follows and returns the cheque to the payee.

....Bank LTD.

Calcutta,....................194

Cheque No........... *Dated*...................

RETURNED FOR REASON NO..............

1. Effects not yet cleared, please present again.
2. Not arranged for.
3. ....Payee's Endorsement required.
4. ....Payee's Endorsement irregular.
5. Refer to Drawer.
6. Drawer's Signature differs from specimen filed in books of the Bank.
7. Endorsement requires Bank's Guarantee.
8. Alteration requires full Signature of drawer.
9. Cheque is post-dated.
10. Cheque is out-of date.
11. Amount in words and figures differs.
12. No advice. (Please present again).
13. Payment stopped by the drawer.
14. Endorser's authority to sign required for registration in the Bank's Book.
15. *Full cover not received.*
16. Once withdrawn this week, please present next week.
17. Exceeds arrangement.
18. Crossed Cheque must be presented through a Bank.
19. Payable at.
20. Cheque is Mutilated.

Accountant.

Collecting Banker

When a bank receives payment for a customer of a cheque crossed to himself and the customer has no or defective title thereon, the banker is protected from his liability to the true owner if he collects it in good faith and without negligence. The bank must be able to prove in such circumstances that the cheque was crossed at the time when it was paid in, the cheque was collected for a customer and the cheque was collected in good faith and without any negligence.

"I Owe You" or I. O. U.

An I. O. U. is an instrument. It is very often confused with a promissory note, which is a negotiable instrument while the former is not.

An I. O. U. is a mere acknowledgment in writing of a debt due from the person who gives it, to another to whom it is given. Generally an I. O. U. does not require a stamp, but if it (*a*) contains a provision that it must be paid on demand or at some future date then it becomes virtually a promissory note and must be stamped as such and if (*b*) the words are so used that it becomes a contract to pay even though not a promissory note, and must also be stamped as such.

I. O. U.
Calcutta, 12th July, 19 .

Mr. J. Sen,
I. O. U.

Twenty Rupees Only
S. C. Bose.

Questions

1. What is a Bill of Exchange? How do you distinguish between a Foreign and Inland Bill? Carefully and in detail explain how a Bill of Exchange may be helpful in the jute trade between Calcutta and Dundee. (B. Com. Cal., 1941.)
2. Write notes on "Documentary Bill", "Clean Bill", and "Finance Bill". (B. Com. Cal., 1929.)
3. Mention the various processes by which the indebtedness of one

country to another can be liquidated. Which is the most approved of these processes? (B. Com. Cal., 1929.)

4. State how you would draw a cheque ensuing its payment to no other person than the payee himself. What is the effect of marking a crossed cheque "Not Negotiable"? (B. Com. Cal., 1924.)
5. What is meant by Negotiable Instrument? (B. Com., Lucknow, 1923.)
6. Give the legal definition of a bill of exchange. Mention several advantages attaching to a bill of exchange and show how they are used to finance general trade. (B. Com. Cal., 1928.)
7. How do bills of exchange obviate the necessity of sending specie from one country to another? (B. Com. Cal., 1928.)
8. Clearly explain the following crossings on cheques :—

   (*i*)

   (*ii*) Lloyds Bank, Ltd.

   (*iii*) & Co.
   Not Negotiable.

   (*iv*) Bank of India, Ltd.
   Credit S. C. Banerjee a/c. Payee only.

   (B. Com. Cal., 1940.)
9. Draft a D/P interest bill at) m%s on H. C. Banerji, Calcutta, for *£250 12s. 9d.*, value. Hardware, shipped by S. Jones & Co., of London on the 9th of March, 1924. Explain the object of this form of draft. Cannot this object be served in any other way? (B. Com. Cal., 1924.)
10. (*i*) Give the legal definition of 'Bills of Exchange' and by what name are they known?
    (*ii*) Mention several advantages attaching to the use of Bills of Exchange and show how they are used to finance general trade. (B. Com. Cal., 1928.)
11. A shipment of produce is being made by a firm in London to a firm in Bombay. The terms are cash against documents. Describe (*i*) what documents are referred to above, (*ii*) explain in detail how they would reach the Bombay firm. (B. Com. Cal., 1929.)
12. What is a Hundi? Distinguish between a Darshani Hundi and a Muddati Hundi. In what respects does a Hundi differ from a Bill of Exchange? Explain how a Hundi, although perfectly negotiable, does not come under the Negotiable Instruments Act. (B. Com. Cal., 1934.)
13. What is a Bill of Exchange? Show clearly how it can facilitate the development of commerce, illustrating with an example from a practical point of view. (B. Com. Cal., 1938.)

14. Write out, in proper form, a Bill of Exchange drawn by a Exporter in London on an Importer in Calcutta in favour of a merchant in Rangoon. (B. Com., Cal., 1939.)
15. Explain what is an I. O. U., and Bankers' Drafts.
16. What is meant by a Cheque? Draw up a specimen of a Crossed Cheque issued by a Calcutta firm on the Calcutta Branch of the Comilla Banking Corporation, Ltd. in favour of a Dacca merchant, or order, and describe the sojourn of the cheque when the Dacca merchant, who has no banking account of his own wants to have the amount collected through a friend having account with the Dacca Branch of the Central Bank of India, Ltd. (B. Com. Cal., 1945.)
17. Write short notes on any four of the following :—
    (a) Negotiable Instruments;
    (b) Produce Exchange;
    (c) Excise Duty;
    (d) Debenture;
    (e) Bonded Warehouse. (B. Com. Cal., 1945.)

CHAPTER XXXI

FOREIGN EXCHANGE

Definition

In modern days of extensive international trade a large quantum of exports and imports are usually interchanged between countries with the result that countries have to pay mutually. In case of internal trade mutual obligations are fulfilled by payments of cash, or through the medium of credit instruments like cheques and bills of exchange, which are drawn and payable within a country and in its own currency. In international trade also, payments between countries may be settled by "gold" which is cash in international trade, or by various credit instruments, mostly, bills of exchange, drawn by a creditor in one country to be paid by a debtor in another country and mostly, too, in currencies of the former. In order to avoid actual shipments of gold to square up mutual obligations, every civilised country now resorts to various practices. As for example, if a country A has many creditors against a country, B, then A has also many debtors as in favour of B ; now instead of actually handling gold, international practices have found foreign exchanges, which through the medium of bills of exchange have rendered it possible to settle all payments between A and B in such a way that creditors in A receive payments from debtors in A, and any difference that remains still between A and B can then be squared up by gold shipment. Now, "Foreign Exchange" may be taken to denote all those operations and transactions comprised in the settlement of international indebtedness by means of credit instruments.

Mint Par of Exchange

In finding out the mint par of exchange between two countries, it is essential that their standards of currencies should be based on one and the same metal, that is, a mint par of exchange

can exist either between two gold standard or between two silver standard countries.

The mint par of exchange is the legal ratio which the standard gold coin of a gold standard country bears to that of the standard gold coin of another country having a similar standard. Similarly, between two silver standard countries, a mint par will mean that legal ratio which the standard silver coin of one country bears to that of another. In other words, it means that the metallic contents of one standard coin of a country should be exchanged in equal weight and fineness with those of another standard coin of a different country, both having the same standards of currencies. Hence, the mint par of exchange between countries can be found out by comparing the weight and fineness of their standard coins, and since the latter in each country are always regulated and fixed by its currency laws, a mint par of exchange is always an invariable rate of exchange as long as currency laws of countries concerned remain fixed and unaltered.

Current Rate of Exchange

As distinct from a mint par of exchange, a current rate of exchange refers to that rate which is paid in one exchange market, say in franc in the Paris market, for credit instruments or bills of exchange, drawn on and payable in another country in currencies of the latter, say in sterling in London. This rate for such bills of exchange is determined like the value of any other commodity by their demand and supply, and as such is constantly fluctuating. When the price of bills of exchange is determined at such a rate that an ounce of gold in one country commands the right to receive an equal ounce of gold in another country, the exchange may be said to be at par. Thus the mint par between the United States of America dollar and the sterling may be found out in the following way. One dollar contains 23·22 grains of the fine gold and a £ sterling 113·0016 grains ; the mint par is therefore, $\frac{13{\cdot}0016}{28{\cdot}22}$, or a £ sterling is equal to 4·8665 dollars, approximately. Hence, it is also clear

that there can exist no mint par of exchange between a gold and silver standard countries, because in a gold standard country silver is regarded as a commodity, whose value fluctuates according to demand and supply, and as such the value of silver will be fluctuating in terms of gold.

Specie or Gold Points

The gold or specie point of the currency of a country may be said to be that point above or below the mint par of exchange at which the country starts to import or export gold.

Thus, for example, according to the mint par of exchange, 124·21 francs in gold are equivalent to £ sterling. Now this quantum of francs is equal to a £ sterling, when francs are already in London. Now, this will not be true in case of a debtor merchant situated in Paris, and who would like to pay his creditor in London. In his case, before he can claim to pay in London, he will have to reckon the costs of transhipping gold francs to London in order to pay his creditor. In so doing, various items of cost of transhipment will come in, *e.g.*, shipping charges, costs of freight, insurance and interest in certain cases. Approximately, these come to about 30 centemes to the £ sterling. Thus, it will cost the Paris merchant 124·21 and ·30 francs to get one pound in London. Now, if a Paris merchant is to pay his London creditor, he can do so in two ways. He can either send actual gold francs, costing him 124·51 francs to the £I, or he can buy a bill in sterling payable in London, and for the latter he will be prepared to pay 124·51 francs for each £1 worth bill of exchange. But, if the price of the bill of exchange exceeds this rate, he will prefer to pay by actual remittance of gold francs, because in that way he can get £1 for 124-·51 francs, supposing, of course, that gold francs are freely available for export. Conversely, it will be also found that there are merchants in London who would like to pay to creditors in Paris. They can similarly pay either by remitting gold coins or by means of bills of exchange. A debtor merchant in London in sending gold francs to Paris creditor will have to pay also same costs of 30 centemes, that is, he can for each

£ sterling obtain 124·21—·30=123·91 francs in Paris, after defraying costs of transhipping gold coins to Paris. Hence, if the price of a bill of exchange is 123·91 francs to the £1 sterling, a British debtor will not care, whether he pays by exporting gold or by bills of exchange. But if the price of the bill of exchange is such that he gets less than 123·91 francs to the £1 sterling, he will certainly prefer to pay by actual shipment of gold coins, because that way is cheaper. Hence, from the standpoint of London, francs 124·51 and 123·91 may be called gold or specie points ; 124·51 being the gold import point *i.e.*, at this point, the Paris debtors will start thinking of paying British creditors in London by actual shipment of gold coins, and francs 231·91 being the gold export point, where the London debtors will think of paying to Paris creditors in terms of actual gold coins. Now, prices of bills tend to be determined by demand and supply, that is to say, at any time in any exchange market be it in London or Paris, there are always some creditors as well as debtors. Creditors, who would like to be paid by foreign debtors (Paris creditors from London debtors), and debtors who will have to pay foreign creditors. In Paris, *e.g.*, debtors will want bills on London to pay London creditors and Paris creditors who would like to sell bills on London. In the Paris exchange market, prices of bills will be determined by demand and supply. But, unlike the value of any other ordinary commodity, the fluctuations in the prices of those bills are restricted within limits of the gold points, or in other words if current rates of exchange, that is to say, prices of bills touch the gold export or import points, actual specie will tend either to leave the country, or tend to flow into it.

Various Kinds of Rates

Generally, various kinds of rates are quoted for different types of foreign bills and cheques, rates depending largely upon the period of maturity of bills. (1) Highest and best rates are always quoted for *Telegraphic Transfers*, where money is payable immediately. A telegraphic transfer denotes an order conveyed by telegraph from a banker in one financial centre

to his correspondent in a foreign financial centre, asking the latter to pay an expressed sum to a named person. (2) *Sight rates* are quoted for bills and cheques which are payable on demand or at sight, and as such they allow for interest on the time lost on transmission. They are, therefore, cheaper than telegraphic transfers. (3) *Short Rates* are quoted for bills, which have a short time to lapse before they mature for payment, and so these rates allow for greater interest and also, for risks of waiting. Short rates are, therefore, cheaper than sight rates. (4) *Long Rates* refer to those quoted for bills which have a longer time to lapse before they mature for payment and usually, a basic long rate is often quoted for bills of 90 days' sight. Generally, by short time we mean not exceeding ten days. Be it noted here that the rate of sight remittances is called the *Sight exchange*, whereas that for bills with more than ten days to run is known as the *Long Exchange*.

Quotations

Rates for bills may be quoted either in terms of domestic or foreign currencies. When quotations are given in a foreign currency, high rates are against the domestic country and low rates in favour of the latter. Hence, in such case, the maxim that better the bills, the lower the rate is true, as well as it is better to buy high and sell low.

In case quotations are made in domestic currencies low rates are favourable for the domestic country and high rates unfavourable . And then the maxim that better the bill, the higher the rate will apply, as well as it will be better to buy low and sell high.

Tel Quel. Rates

In practice, the long rates are generally calculated from the short rates, by making necessary deductions for interest and risks involved, or in other words, sight rate minus interest, etc., is equal to the long rate. Often a basic long rate is quoted having three months' bills as basis. Now, all long bills are not for three months, and hence, different rates are required for bills

having varying periods to run before maturing for payment. But it is not possible to quote all such rates in advance in practice. So what is done to meet the requirements of such bills is to determine their rates by adjusting the long rate in such a way that proper allowance is made for interest, etc., according to their varying periods of maturity. A *tel quel rate* refers to that rate which is made by adjusting the basic long rate to suit the conditions of any particular bill in question. Sometimes, a tel quel rate may also be quoted by adjusting the quoted short rate according to the circumstances of any specific bill.

Arbitrage Transactions

The rates of exchange ruling in different exchange markets may vary at one and the same time, *e.g.*, for at a particular time any day, francs in terms of £ sterling may be cheaper in London than in Paris, and then an exchange dealer can make profits by buying francs in London and selling the same in Paris. Arbitrage operations in exchange like those in case of commodities, denote those transactions undertaken by exchange dealers as above, who intend to make profits from differences in exchange rates, prevailing in two or more exchange markets at the same time. Such transactions when restricted to two markets like Paris and London, are known as *"Simple Arbitrage"*, whereas when confined to more than two markets, we have got what are generally known as *"Compound Arbitrage"*. Thus a London banker buys francs in London ; advises his Paris agent to buy Swiss francs ; then instructs his Swiss agent to purchase marks in Berlin and advises his Berlin agent to buy £ sterling again. In this case, money is again fetched to the centre from where the operation is conducted, and this type of deal is technically known as *"Circuitous Arbitrage"*.

In order to make profits by these types of transactions, an exchange operator must be able to act immediately and simultaneously, because fluctuations tend to move very quickly.

Forward Exchange

We have already seen in a previous chapter how "dealings in future" are conducted. The same principle of "future" is

also applicable in case of exchange dealings. A merchant can either buy or sell from a banker a foreign exchange at an agreed rate to take or give delivery at a future date. Thus for example, an Indian merchant buys goods from America, and they arrive after three months when he will have to pay in dollars to the American seller. Now, between the time of contracting to buy the goods and actual delivery, exchange rates may fluctuate to the embarrassment of both the buyer and seller. So, in order to guard themselves against such future exchange fluctuations, the merchants will buy or sell forward exchange. That is to say, the Indian merchant will buy dollars to be delivered to him at a future date at an agreed rate, and the American seller will also contract to sell rupees at an agreed rate to give delivery at some future date. But, as the American seller may not know the exact date on which he will be paid rupees by the Indian merchant, the banker usually grants him an option to deliver his rupees within a certain period.

Methods for Foreign Remittance

There are various methods of transferring funds from one financial centre to another, of which the following are chiefly found in practice. The rates of exchange applicable to each type of credit remittance vary according to the facility of obtaining payment. (*a*) Bills of Exchange are the most popular ones, which include demand, sight, short, and long bills as well as banker's drafts. (*b*) Cable or Telegraphic transfers are usually confined amongst banks, because they require great confidence as there is no signature to verify. They are in the form of order to pay sent by means of telegram or cable. (*c*) Mail transfers denote advice sent by one bank, usually, to another ordering the payment of a specified amount to a named party. (*d*) Guaranteed Payments or Guaranteed Mail Transfers mean orders by banks to agents or correspondents abroad to pay a stated sum of money to a named party, and the bank guarantees such payments within a specified period. (*e*) Stock Exchange Securities which have an international market are now utilised as methods of remitting funds from one centre to another.

(*f*) Actual gold may be sent, but its movement is restricted by gold points.

Foreign Exchange Table and Rates

In London the newspapers publish what is known as a Foreign Exchange Table, giving the prices quoted for various kinds of foreign currencies. In India the foreign exchange rates are quoted each day in the followigg way.

Quotations

Call money ¼ per cent. Quiet.

Opening foreign Exchanges:—

B. C. Bills for collection rate T.T. and D.D. 1/5-29/32.

London.—Banks selling T.T. and D.D. 1/5-15/16 ; buying T.T. 1/6 ; D.D. 1/6-3/32 ; buying 3 months sight 1/6-7/32 (2 months) ; buying 3 months sight 1/6-1/4 (next 2 months) ; buying 3 months sight 1/6-9/31 (4 months).

New York.—Banks selling T.T. and D.D. 332¾ ; buying T.T. 330 ; D.D. 328½.

Montreal.—Banks selling T.T. 303 ; D.D. 303 ; buying T.T. 297¾ ; D.D. 296¼.

Java.—Banks selling T.T. 55¾ ; D.D. 56 ; buying T.T. and D.D. 57½.

Japan.—Banks selling T.T. and D.D. unquoted ; buying T.T. unquoted ; D.D. unquoted ; buying 60 days sight unquoted.

Berne.—Banks selling T.T. 126¾ ; D.D. unquoted ; buying T.T. 131½ ; D.D. unquoted.

Stockholm.—Banks selling T.T. and D.D. 123 ; buying T.T. and D.D. 128.

Singapore.—Banks selling T.T. and D.D. 158 ; buying T.T. and D.D. 155.

Hongkong.—Banks eslling T.T. 85¼ ; D.D. 84½ ; buying T.T. and D.D. 81½.

Shanghai.—Banks selling T.T. unquoted ; D.D. unquoted ; buying T.T. and D.D. unquoted.

London on	Money Units	Method of Quoting Usance		Par	July 24th, 1930	July 23rd, 1931
New York ..	Dollar = 100 cents	Dollars to £1	Cable	4·86	4·86⅝—11/16	4·84⅛—84⅜
Montreal ..	Dollar = 100 cents	Dollars to £1	Cable	4·86	4·85⅞—6⅛	4·86—86¼
Paris	Franc = 100 centimes	Franc to £1	T.T.	124·21	123·66—·68	123·55—·65
Berlin	Mark = 100 Pfenning	Marks to £1	T.T.	20·43	20·37¾—38¼	20¼—20¾ nom
Amsterdam ..	Florin = 100 cents	Florins to £1	T.T.	12·107	12·09—½	12·03—·03½
Brussels ..	Belga = 5 francs = 500 centimes	Belga to £1	T.T.	35·00	34·79¾—80¼	34·76—·78
Milan	Lira = 100 centismi	Lira to £1	T.T.	92·46	92·88—·90	92·63—·68
Berne	Franc = 100 centimes	Francos to £1	T.T.	25·22½	25·03—·03½	24·88—·90
Oslo	Krone = 100 ore	Kroner to £1	T.T.	18·159	18·16—·16½	18·16¼—·16¾
Stockholm ..	Krona = 100 ori	Kroner to £1	T.T.	18·159	18·09—½	18·16¼—·16¾
Copenhagen ..	Krom = 100 ore	Kroner to £1	T.T.	18·159	18·15½—·16	18·16¼—·16¾
Madrid	Peseta = 100 centimos	Pesetas to £1	T.T.	25·22½	42·50—·55	53·05—10
Lisbon	Escudo = 100 centervos	Escuds to £1	T.T.	4·50	108½—⅜	109¼—110½
Viena	Schilling = 100 groschen	Schllgs. to £1	T.T.	34·58½	34·43—·46	34·50—·60
Prague	Krone = 100 heller	Krone to £1	T.T.	164¼	164—164¼	163¼—163¾
Belgrade ..	Dinar = 100 paras	Dinars to £1	T.T.	25·22½	274⅛—⅝	274—276
Budapest ..	Pengo = 100 fillar or garas	Pengo to £1	T.T.	2·82	27·76—·78	27 90—28·00
Bukarest ..	Len = 100 bani	Lei to £1	T.T.	318·6	817¾—818¼	816—818
Sofia	Leva = 100 stotinki	Leva to £1	T.T.	673·659	665—675	665—675
Athens	Drachma = 100 leptac	Drachmae to £1	T.T.	)75	374¾—3775¼	374¾—375¼
Constantinople ..	Pound Turkish { = 4000 paras = 100 piastres	Piasters to £1	T.T.	110	1025	1025
Moscow	Tchervonetz = 100 roublts	Roubles to £1	T.T.	9·46	9·444—9·483	9·414—·433
Alexandria ..	Pound Egyptian = 100 piasters	Piasters to £1	Sight	97½	97 7/16—9/16	97 7/16—97 9/16
Calcutta ..	Rupee = 16 annas = 64 pice = 192 pies	Petce to rupee	T.T.	18*d.*	1/5 25/32—3/16	1/5 13/16—27/32
Hongkong ..	Dollar = 100 cents	Ster. to dollar	T.T.	...	1/3⅜—1/3⅝	0/11⅞*d.*—1⅜*d.*
Shanghai ..	Tael = 1000 cash or li	Ster. to tael	T.T.	...	1/¼—1/¾	1/3 1/16—9/16
Singapore ..	Dollar = 100 cents	Ster. to dollar	T.T.	2*s.* 4*d.*	2/3 11/16—2/3 13/16	2/3 11/16—13/16
Kobe	Yen = 100 sen	Ster. to yen	T.T.	24·57*d.*	2/0 5/16—2/0⅜	2/0 7/16—½
Manila	Peso = 100 cents	Ster. to peso	T.T.	24·066*d.*	2/0 5/16	2/0 11/16
Mexico	Peso = 100 centevos	Poses to £	T.T.	9·76	10·25—10·45	9·85—9·90
Siam	Baht = 100 Satangs	Ster. to baht	T.T.	21·82*d.*	1/9⅜	1/9⅜

Mexico.—Banks selling T.T. 67·27 ; D.D. 66·27 ; buying T.T. 63·04 ; D.D. 62·04.

Lisbon.—Banks selling T.T. and D.D. 7·35 ; buying T.T. and D.D. 755.

Tone.—Steady.

Soreign.—Rs. 28-7-6.

"Call" money rate means the rate at which banks lend money which can be ordered for repayment immediately. *Bill Collection Rate* or *B. C. Rate* means the rate of exchange for discounting foreign bills received from abroad for collection in the home country. If a bank receives a foreign bill from one of its foreign representatives or agents to be collected in domestic currency, the rate at which it is collected is the B. C. Rate, which is fixed every morning by the exchange banks acting together. Any person who is liable to pay on such a foreign bill must pay according to the prevailing B. C. Rate unless he has brought a forward exchange, which means he has already contracted beforehand to buy the required foreign exchange at a stipulated rate.

Fluctuations in Foreign Exchanges

The rates of foreign exchanges are determined like the value of any other economic commodity by the supply and demand of foreign exchanges. But their demand and supply again are influenced among others by the following factors. (*a*) The volume of international trade causing international indebtedness influences the demand and supply of foreign exchanges. International trade includes not only visible exports and imports but also invisible ones like insurance, freight and shipping charges. (*b*) Financial factors are also very influential. Banks transfer funds from one centre to another in order to take advantage of earning higher rates of interest. Funds are tansferred by international borrowing and lending, and by payment of interest by one country to another upon the capital borrowed. Funds are also moved from one centre to another by means of purchase and sale of stock exchange securities. (*c*) The supply and demand of foreign

exchanges are also influenced by speculation aimed at earning profits out of the fluctuations in foreign exchanges. (*d*) Changes in the currency and credit of a country causing fluctuations in prices may also bring about corresponding repercussions in the foreign exchanges, concerned.

Exchange Restrictions

Various methods have been devised to control exchanges in order to achieve several objects. It may be aimed at to control the depreciation of currency and to maintain unimpaired the purchasing power of currency in the foreign centre. It is introduced to encourage export by under-valuing currency. It is very often resorted to after a country has abandoned gold standard in order to force down the value of exchange rate. The following methods of exchange control are commonly found.

(*a*) *Exchange Pegging* means the keeping of the exchange value of currency at a cetain fixed level by official purchases and sales. If the exchange rate falls below the fixed level, the authorities will go into the open market and buy up currencies in order to push their value higher. Contrarily, when exchange rates go up, the authorities start selling the currency and bring down its value. In order to achieve these objects effectively, generally an Exchange Equalisation Fund is created, and it is utilised in pegging local currency to a certain fixed level in spite of probable fluctuations.

(*b*) *Blocked Currency* refers to that system in which if a foreign exporter is to get some money from another foreign country, he is not allowed to take that money out of the country. His due money is transferred to a special account known as "Blocked Account" in his favour, and he can utilise this only to buy goods in that country alone. This means that this "Blocked Currency" is not freely transferable in the exchange market, and consequently its exchange value remains steady.

(*c*) *Exchange restrictions* may take various forms. They may amount to complete prohibition of all speculative dealings in foreign exchanges. Again there may be the rule that all

dealings in foreign currency must be done under an official permit. The exchange banks may be made to operate in foreign exchanges under a license on the undertaking that a certain amount of their foreign currencies must be passed on to the Government. The controlling authority may fix the value at which foreign exchanges are to be transacted. The Reserve Bank of India has now been appointed the Controlling Authority for regulating the foreign exchange dealings in India. Restrictions have been imposed upon the dealings in foreign exchanges.

(*d*) *Exchange Clearings*.—When international trade was hampered by means of various exchange restrictions, countries started to make "Exchange Clearing" arrangements between them in order to facilitate mutual trade. Such agreements were concluded between England and Spain, England and Turkey, and other countries as well. The object of these Clearing arrangements is so to adopt a system whereby the exporters of a country can be paid for by its importers when trade of such a country is confined to another with which the Clearing arrangement is concluded. This tends to facilitate trade to some extent in spite of the exchange restrictions.

The possibility of an imposition of some restriction upon transfer of funds may cause hardship upon exporters, and so there have now evolved in every country some kind of method by which this risk of an exporter can be suitably covered by means of insurance.

Exports and Imports: Visible and Invisible

We have already discussed that the balance of trade is found after totalling a country's imports and exports. When the import of a country is greater than the export, the balance is said to be unfavourable, that is a country will have to pay abroad this difference. Contrarily, when exports exceed imports, a country is said to possess a favourable balance, and is paid this balnce. Of course, we have already seen that this discrepancy between exports and imports is only temporary, and how it is automatically corrected. Generally speaking, in finding out the total exports and imports of a country, we go

to the Government publications, which generally give us the actual exports and imports of merchandise. In addition to these visible merchandise, there are some invisible items both in export and import which must be considered in finding out the total exports and imports of a country.

There are transactions which involve payment of money from abroad without any visible export of merchandise, and these partake of the nature of invisible exports. Thus, for example, India renders services to other countries by means of her banking, insurance, shipping, etc., and for these she is paid remuneration. These services rendered are known as *Invisible Exports*. Similarly, in addition to visible items of merchandise in our import side, India avails of the services of foreign banking, insurance, shipping, etc., for which she must pay foreign countries concerned. These services availed of go to form our Invisible Imports. The money which we remit to England as Home Charges also go to constitute a payment for invisible imports. India's balance of trade can be found by totalling all our imports and exports including all invisible items.

Purchasing Power Parity

The rate of exchange between two different countries having similar or different standards of currencies is determined by the purchasing power of their respective currencies. The ratio or rate tends to fluctuate according to the variations in the purchasing powers of the respective currencies concerned. This parity is therefore ultimately determined by the amount of currency of the countries concerned required to buy the same amount of goods in the other countries concerned. The Mint Par is therefore the same thing as the purchasing power parity between two gold standard countries. The purchasing power parity is the real basis upon which the market rates of exchange are determined. Between two gold standard countries, fluctuations in foreign exchanges are confined within specie points as long as free movements of gold are allowed. Thus, for example, there is a mint par of exchange between England and France,

if purchasing power of France goes up in terms of sovereign, gold will tend to flow to France because more goods can be purchased there for the same quantity of gold, and ultimately the mint par will be again restored. If there be no free movement of gold from one country to another as is the case now, fluctuations in foreign exchanges are no longer confined within gold points, which lose significance for all practical purposes.

Correctives of Adverse Exchanges

A country may experience unfavourable exchange owing to various factors, which will also require different correctives. (1) Any adverse exchange is generally corrected during normal periods by an automatic export of gold. Similarly, a favourable exchange also tends to disappear by an import of gold, assuming in both cases a free movement of gold. (2) When an adverse exchange results from an unfavourable balance of trade, it may be corrected either by an *increase of export* or *decrease of import* either of which tends to create a favourable balance of trade, and as such a balance of indebtedness in favour of the country concerned. (3) Adverse exchanges may be corrected by attracting capital investment in the country through the mechanism of *increasing the rate of interest*. (4) When an unfavourable exchange is due to a country's debased or depreciated currency, it may be corrected by *reformation* of the latter.

Treasury Bills

The Government of India generally borrows from the Reserve Bank of India for short periods by means of Means and Ways' Advances.

The Government of India regularly borrows from the public for short periods by means of Treasury Bills which have an usance of three months. Loans in form of Treasury Bills are commonly subscribed to by the banks. Generally on every Tuesday each week, the Government invites tenders for the purchase of Treasury Bills, and they are alloted to the highest bidders. Tuesday is the regular tender day for the purchase of Treasury Bills. In between the week also the Government may sell Treasury Bills, which are technically known as Inter-

mediaries. The fundamental difference between the Treasury Bills and Intermediaries is that the price of Treasury Bills is determined by the tenderers, and therefore the money market conditions tend to influence very greatly the prices of Treasury Bills. Whereas, Intermediaries are sold at a fixed price. There is no tender for Intermediaries, whose prices are fixed by the Government. Hence, the Government can control the prices of Intermediaries. The price or rate at which they are sold is technically known as the *Tap Rate*. Intermediaries are usually sold by the Government in order to take advantage of cheap money. If the Government think that there is surplus of money in the market, it starts selling Intermediaries at a lower price.

TREASURY BILL TENDERS

(In thousand of Rupees)

Week Ending 1941.	Amount Tendered Rs.	Amount Accepted Rs.	Average Rate Rs. As. P.	Interme-diaries Rs.	Renewed Bills Rs.
May 6th	2,18,75	1,00,00	0 13 0	1,53,75	3,60,00
,, 13th	2,36,75	1,00,00	0 12 9	1,52,50	81,75
,, 20th	3,39,50	2,00,00	0 13 9	2,83,75	3,85,00
,, 27th	3,38,25	2,00,00	0 13 9	1,76,25	3,00,00
June 3rd	2,86,00	2,00,00	0 13 9	1,95,25	5,26,00
,, 10th	3,24,50	2,00,00	0 13 11	2,20,00	4,78,00
,, 17th	2,82,50	2,00,00	0 13 10	2,45,50	3,26,50
,, 24th	2,08,25	2,00,00	0 13 9	26,75	2,70,00
July 2nd	2,26,00	2,00,00	0 13 9	58,25	2,38,00
,, 8th	2,12,50	2,00,00	0 13 8	21,75	8,62,50
,, 15th	3,85,50	2,00,00	0 13 9	8,75	2,83,25
,, 22nd	4,17,50	2,00,00	...	...	1,50,50
,, 29th	2,27,75	1,00,00	0 11 9	...	1,09,00
Aug. 5th	3,33,50	1,00,00	0 9 4	...	3,90,00

Bills Renewed by the Government of India to replace maturing ones in the Issue Department of the Reserve Bank. Tenders for Rs. 1 crore of 3 months Treasury Bills will be received on Tuesday, the 12th August, 1941.

Questions

1. Explain carefully the terms (*i*) Mint Par of Exchange, and (*ii*) Specie Points. (B. Com. Cal., 1938.)
2. What are Tel quel Rates? Define Arbitrage Transactions.
3. Describe Forward Exchanges and explain what is meant by "Correctives" in Foreign Exchange.
4. What are the Methods of Foreign Remittance of money?

CHAPTER XXXII

TRANSPORT

General

The vastness of our present economic system has been rendered feasible by the development of modern transport, which, broadly speaking, consists of (*a*) railways, (*b*) roads, (*c*) ocean transport by steamships, (*d*) water, including canals and irrigation channels, and (*e*) air. All these systems of transport are working in India though air transport possibilities remain as yet quite undeveloped.

Canal and irrigation channel transport is also very important in our country, in view of the predominance of agriculture in our national economy. A large part of our agricultural tracts are to-day only accessible through this type of transport. India even to-day offers vast possibilities, if properly planned programme is undertaken to improve canal and irrigation channel transport.

Development of Transport in India

The means of transport in India were very imperfect up to the middle of the 19th century, when there were no good roads, canals nor any railway system. The Government at the time of Lord Dalhousie started first to construct railways in India from the year 1853, when the first Indian railway, namely, the Great Indian Peninsular Railway extending from Bombay to Kalyan was built up. The first line from Calcutta to Hooghly was started in 1855. Now the whole country has been widely connected with railways extending over more than 42,280 miles. Vast improvements have also been effected in inland waterways by steamers and construction of navigable canals and rivers. Road transport has also been greatly improved by construction of proper roads over which vehicles driven by motor spirit are constantly plying. Air transport is also fast developing in India.

Railways in India

Amongst transport systems, railways are by far the most important ones. Transport by railways is quick, regular and cheap. Bulky goods can be easily carried over long distances. Passenger traffic is also very greatly facilitated by railways. It is no exaggeration to say that the trade and industry of a country depend for its development and growth upon an efficient system of railways. In India the following are the chief railways:—(*a*) Assam Bengal Railway, (*b*) Bengal and North Western Railway, (*c*) Bombay, Baroda and Central India Railway, (*d*) Bengal Nagpur Railway, (*e*) Eastern Bengal Railway, (*f*) East Indian Railway, (*g*) Great Indian Peninsular Railway, (*h*) Madras and South Mahratta Railway, (*i*) North Western Railway, (*j*) South Indian Railway.

Railway management in India may be either (*a*) state, (*b*) private, or (*c*) private management with state guarantee of interest. Owing to the various arguments in favour of state railways, the Government of India has been pursuing a policy of acquiring and owing all railways in India, and at present the majority of railways are state-owned and state-controlled. Since railways are monopolies, and are in the nature of public utility concerns, it is proper that they should belong to the state, and all profits derived therefrom should go to the people as a whole. In India the state railways are managed by the Railway Board.

Railway Transport

Though India is now covered with a net-work of railways, further scope is still there for their development and growth. In every country, the railway transport occupies a fundamental position in its national economic system. Much of a country's economic well-being depends upon railways. Railway rates and freights play vitally important parts in the growth or otherwise of the industries and trade of any country. It is, therefore, very important to understand how these rates are actually determined. Theoretically speaking, rates and freights should be determined by the interaction of the forces of demand and supply like the value of any other commodity. This would be

true if railways were in the nature of free competitive economic commodities. Owing to economic factors and conveniences, railways are always allowed to develop as monopolies in particular areas. No competitive tracks are generally allowed to work and as such railway rates are not determined by demand and supply like the value of any other free economic competitive product. Being a monopoly, railway rates are governed by artificial control and regulations.

Attempts, however, have been made from the very beginning to follow a rational principle even in artificially controlling such rates. After experimenting with several principles, the modern practice of determining railway freights and rates according to what the traffic will bear has evolved. Originally, rates were determined according to distance travelled.

Mileage System

This mileage system of rates was unfair so far as long distance was concerned, because costs in long and short distances do not vary so much as to justify proportionately very high rates for the former, which was rendered prohibitive and uneconomic.

Combination of Mileage System and Terminal Charges

In order to purge this mileage system of its rigours and inequity, it was tempered by an additional charge, known as terminal charges to itself. This meant that rates were fixed both according to distance travelled as well as charges incurred at the terminus station. Even here, the inequity of the previous system tended to persist. The newly introduced principle that all traffic must proportionately bear the costs and charges incurred at the destination station becomes very difficult to apply in practice. It was very hard to apportion these charges proportionately amongst goods carried to a particular station, and it became more difficult to do so in anticipation of what would be the costs of maintaining a station, which tended to vary from time to time.

Charging what the Traffic will Bear

Lastly, this principle of charging what the traffic will bear has come to govern the modern practice of determining railway freights and rates. It is more a practical expedient rather than an economic principle of fixing value on the basis of costs. Under this system rates are fixed according to the capacity of those who pay for traffic. Goods are charged freights according to what they can afford to bear and this is found out by studying the volume of traffic. Thus, for example, a certain freight is fixed upon the carriage of coal to Calcutta from Asansol coal fields, and after some time it is found that the tonnage of coal brought down to Calcutta tends to fall. This will lead to the conclusion that the freight on coal is high and the traffic cannot bear this rate. Because, freight is ultimately paid by consumers by going into price as an additional charge, and as such any alteration in it will have its corresponding reaction on the price. So, in the above case, when the freight of coal is increased, its price also shoots up, and consequently its demand tends to decline, and hence, it is said that the high rate the coal traffic cannot bear.

Under this modern principle, the railway authorities always allow the objective of maximising railway revenues, and any alteration in rates is made with a view to this end. If railways find that by reducing rates, traffic so increases as to bring in more revenue, then rates are reduced.

In India, the railways also follow the above principle in fixing their rates and freights. In the past railways developed under private companies, but, gradually, the Government started to take them over, and now the bulk of Indian railways is state-owned, state-controlled and state-managed.

Railway Rates Tribunals

Railway freights in India are often complained of as being rather high by the industrialists and merchants of our country. They contend that the rates are very high, and discourage traffic to the detriment of our economic life. In order to meet these grievances, the Government has established Railway Rates

Tribunals, consisting of experts and commercial people. If any one feels that railways are charging very high rates for particular commodities, he is privileged to bring the matter before one of the Tribunals, who acts as an adjudicating body. The Tribunal will thoroughly go into the question, and examine whether the rate is economic or not, and its decision is more or less obligatory upon the railway authorities.

Railway Advisory Committees

In addition to the above, railways have now Advisory Committees, consisting of experts and outside public, and the duty of these bodies is, mainly, to bring to the notice of the railway authorities any inconveniences or disadvantages along the traffic, and suggest suitable remedies thereof. They are merely advisory bodies.

Kinds of Rates in India

There are three kinds of freights in the Indian Railway system. First, we have got what is known as *Class Rate*. In order to fix up this kind of rates, commodities are grouped into various classes by the Indian Railway Conference Association from time to time in their General Classification of Commodities. Then maximum and minimum rates per maund per mile are laid down for different classes of goods. The maximum rate of any class means the ordinary rate per maund per mile without terminal and toll charges. Sometimes Class Rates are quoted at lower than maximum rates and then they are known as Adjusted Rates which are found in the Junction Rate List. When a rate is quoted for a commodity at a lower figure than that of its own Class Rate, the rate must not go lower than 166 pie per maund per mile excepting in case of certain specified railways.

Then there is the *Schedule Rate* which means a rate lower than the maximum of a class. It may be levied uniformly, or it may vary according to either weight or distance. The unit of such a rate is per maund, ton or cwt. Schedule rates are also marked by letters or numbers. They may apply either over the entire system or only between certain points.

Thirdly, we have got the *Station-To-Station Rate* which

means that a certain rate applies only between two points—station to station on same or different railways or station to junction.

A classification of goods has been made by Indian Railways for carriage, and freights are charged according to this classification. All goods have been divided into ten classes, each class having minimum and maximum rates. The classification is generally based upon the value of goods, regularity of despatch, bulk, degree of risk involved in transit, volume of traffic in that type of goods, etc. The railways are free to charge any freight provided it does not exceed the maximum or fall below the minimum as fixed for any particular class of goods.

Forwarding Goods by Railways

In transporting goods by railways, every person must fill up a railway form known as a Consignment Note at the time of delivering the goods to the railways. The Consignment Note must contain full particulars of the goods, including the description, quality, and price, names and addresses of consignor and consignee. It must also state whether the freight is paid or is to be paid at destination, and also whether the goods are carried at Railway's Risk or Owner's Risk.

The railway has a lien over the goods for its freight, wharfage, demurrage, etc.

If goods are not taken delivery of after paying railway charges, they may be immediately sold by public auction by railways in case of perishable goods. In case of other goods, the railways can sell them by public auction after 15 days subject to a notice of the auction being given in local newspapers. Unclaimed goods can be also similarly disposed of.

When there is any loss or damage to goods, a notice to that effect must be given to railways before taking delivery of the goods. No claim for compensation will be entertained unless it is made within six months of delivery. Similarly, no refund for any over-charge can be made unless it is claimed within six months of delivery of the goods.

CONSIGNMENT NOTE

EAST..............RAILWAY

No..................

.. ..station...........date...........

The East.........Railway Company is requested to Receive and Forward, as per address and particulars on this Note, the undermentioned Goods, on the conditions stated on the other side. This Agreement shall be deemed to be separately made with all companies or persons, parties to any Through rate under which the Goods are carried....

Signature of sender of his Representative.................... Address.... ....

		Information in these columns to be filled up by sender				Information in these columns to be filled up by sender				For use of Railway Company's staff only				
						No. and description of gooods								
Owner and No. of wagons	Date of Invoice	To what Station to be sent	Consignee's name and address	State if to be delivered by company or "To wait order" at Arrive at Start	Who pays Carriage	Number	Description of goods	Mark	Weight	Rate per ton	Collection	Paid on	Paid	To pay

When commodities are despatched at Railway's Risk, it is marked R. R., and means that the railway company is responsible for any loss or damage during transit. Whereas if they are despatched at Owner's Risk that is O. R., it means that the owner is responsible for any loss or damage during transit.

Railway as Carrier

The railway as a carrier is governed by the Indian Railways Act regarding its rights and liabilities as a common carrier. A railway company is liable for the destruction, loss or deterioration of goods delivered to it for carriage. But the liability of a railway becomes limited only to that part of damage or loss which is caused by the misconduct of railway servants when the goods are consigned under a special contract known as a *Risk Note*. In case of valuable goods, the railway may not be liable for any amount exceeding Rs. 100 only and when its valuation has not been accurately given nor the extra charge for the same has been paid.

There are various forms of *Risk Notes*, which are special contracts under which railways carry goods. These Risk Notes must be properly executed and signed by the consignor or his agent. The various forms of Risk Notes are as follows:

1. *Form A*.—This kind of note is executed in respect of goods which are either in a bad condition or badly packed. Under this contract the liability of the railway is nil irrespective of the fact how the goods are delivered. The liability, however, remains if the damage or loss is due to delay, disappearance or theft.

2. *Form B*.—This type of note is used for the dispatch of goods at the owner's risk. Merchants very often prefer to send goods in this way because the freight is quoted very low. But the railway company must be able to show and explain fully how the goods have been dealt with while they were in custody of the railway in case the goods are not delivered or they are lost by theft.

3. *Form C*.—When goods are sent in open wagons at the request of the consignor then this Form C Risk Note is used.

4. *Form D.*—Explosives or dangerous goods are sent under this form at owner's risk, and the liability of the railway company is consequently minimised.

5. *Form E.*—This is used for booking animals of declared value.

6. *Form F.*—It is used for booking animals in cattle trucks, and the liability of the railway is limited to Rs. 50 only per head.

7. *Form G.*—This is an alternative to Form D.

8. *Form H.*—It is alternative to Form B, and is utilised when the consignor wants a general agreement instead of a separate risk note for each of the consignments.

9. *Form X.*—It is used for scheduled articles exceeding Rs. 100 in value and for which no extra percentage freight is charged. In such a contract there is even no liability for the criminal act of the servants.

10. *Form Y.*—This is an alternative to Form X and is used when the sender of the goods wants a general agreement.

Railway Clearing House

The Railway Clearing House was established in 1842 in England, and the difficulties of through traffic over more than one line were overcome. The Clearing House is aimed at ensuring that each line may get its share of the price which is paid for traffic on two lines. When traffic is carried over two lines, one ticket is issued. Then mutual receipts of all lines are adjusted in the Clearing House. It keeps a complicated system of accounts, and the receipts and goings of each railway are adjusted. If there is a balance in favour of a line it is credited, while in case of a debit it is debited with. The Clearing House exists mainly to facilitate through traffic over different lines. Allowances are made for the use of other companies' wagons.

The Clearing House organisation also presents an opportunity for all companies to meet together and enable them to formulate common policies and actions.

Advantages of Railways

Though railways are more expensive to maintain and run, because they must maintain their own tracks and establishments, railway rates are always kept within reasonable limits. Since railways are allwed to develop as monopolies, certain regulations and restrictions are imposed by the Government upon railways. Railway transport is full of certain advantages of its own. Railway service is more certain and regular than most other forms of transport. Railway charges are moderate. Service on railways is regular, uniform and quick. It is a safe mode of transport, and large quantities can be easily transported.

Road Transport

The road transport has been revolutionised by the development of motor vehicles, and to-day it occupies a very important place in modern economic systems. In India, the road transport to a very large extent is even now carried by old systems of bullock carts and similar such contrivances. The motor transport is fast growing in India, and offers vast possibilities of expansion. From the economic point of view, the road transport possesses certain distinct advantages of its own, especially, as against the railway transport. The road transport is less expensive than railways, because the latter have to maintain costly tracks, and bear several standing charges in connection with station up-keep and kindred other things. The motor transport is convenient for the merchants and traders, because it can easily accommodate itself to their special needs. Since, the road transport has no particular time nor route, a motor vehicle may be hired to run any time, and along any motorable road. In road transport cargo may be loaded directly from the factory and unloaded to the primary consumer, that is to say, the road transport facilitates house-to-house delivery. These advantages are conspicuous, especially, in the case of commodities like vegetables, flowers and fresh fruits, which cannot stand too much handling. The road transport is generally advantageous for short distances, where its economic merits can be utilised to the maximum.

The road transport tends to lose its distinct advantages, where the distance travelled is long. For long distances, the road transport is more expensive, because petrol and other running charges tend to be high. It is inconvenient, because in a motor vehicle at least there must be two men, who have got to be lodged and fed. Lastly, chances of break-down are very great in long distance travel and motor transport cannot be relied upon for regularity.

In case of bulky commodities, again, railways are preferable to road transport.

Road Transport in India

Roads in India are mostly constructed by the Government or public bodies, and their maintenance is also paid by public bodies like the Public Works Department, Local Boards, Municipalities, Military Department, etc. Hence those who use roads have little to spend for either their construction or maintenance, unlike the railway companies. The public contribute certain forms of taxes to the local bodies, which are in charge of roads. Of late, the Government has imposed a Road Cess paid by the vehicles using the roads, and the Road Cess is used mainly to build up roads. The motor vehicles are made to pay directly taxes for the use of roads.

India has a total of about 3,00,000 miles of metalled and unmetalled roads. India offers vast possibilities for development of road transport, which is possibly by far the best means of interlocking the rural economy with that of the town. The economic uplift of India is closely associated with the road development, which alone can improve our agricultural economy.

Kinds of Road Transport

The motor vehicle is the most important type of road transport. Among other roads carriers come the Carts, Mules, Horses, etc. Though Carts are yet very common, the motor transport is fast developing in almost every important town in India.

Advantages of Road Transport

The users of roads have very little expenses, if there be any at all, for the maintenance of the tracks. Road transport is sometimes very convenient, because routes and times can be adjusted to individual requirements. Goods which are brittle and cannot withstand too much handling may be conveniently carried by roads, because in road transport it is possible to take delivery directly from the door of the consignor to that of the consignee. Road transport does not come within the definition of a common carrier, and so it can choose its own goods to carry. Road transport becomes cheaper as compared to railways, because return loads are always available in the former. But it is less reliable than railways owing to chances of breakdown. This kind of transport is likely to be less uniform and punctual than that of railway. Even in some areas it is found that roads become unfit for use during certain parts of the year, *e.g.*, rainy season. It is also to some extent less safe than a railway.

Features of India's Road System

There are four great Trunk Roads stretching across the country with which most other subsidiary roads are connected. The Grand Trunk Road runs from Khyber to Calcutta, the other three from Calcutta to Madras, Madras to Bombay, and from Bombay to Delhi. They comprise about 82,284 square iles of metalled roads in British India.

Rail-road Controversy

Recently, the road transport has become vastly popular, and come into competition with railways. The rivalry between these two systems of transport has resulted in cutting down rates to uneconomic levels.

The controversy centring round these two systems of transport has engaged considerable attention. The railways maintain that they cannot hold their own owing to the road competition, as the road transport is placed in an unfairly privileged position. It is contended that the railways have to maintain large tracks

at their own cost, while the motor vehicles do not pay full, if any at all, charge of road maintenances, which are met from public funds.

This competition between roads and railways has appeared almost in all countries, and in practice it is found that railways are gradually losing ground. In India, too, railways are gradually losing a large part of their traffic to roads, and as such the railway revenues are being affected.

How to tackle this problem of competition has been one of the foremost tasks of all governments. Since roads are found to compete effectively with railways, it can be taken for granted that in such cases roads are more efficient and economically more advantageous. Hence any remedy to eradicate the road transport by artificial measures, unrelated to economic factors, cannot be approved of, from the standpoint of a country's economic well-being. Thus we cannot support the practice of eliminating competition by virtual prohibition of road transport in India, by the system that motor vehicles in passing from one district to another have to obtain the previous permission of the district authorities concerned, which more often than not is refused. Instead, this problem of competition should be tackled along proper economic lines. In the more advanced countries of the West, the rail-road controversy has been solved by adopting a co-ordinated transport policy along rational lines.

We have already seen that both systems of transport possess their own distinctive merits, and it is no use to set up an unholy monopoly by artificially crippling one type of transport. The remedy lies in rationalising the transport systems, as in the case of other industries. The merits of both systems should be thoroughly scrutinised, and each should be allowed to remain where it is economically paying. Road transport should be allowed to hold its own in case of short distance traffic, especially, in the carriage of fresh fruits and flowers. Railways must always be utilised for bulky goods and long distance travels.

There are many places where roads are feeders to railways. In India, especially, there are many tracts which are as yet unconnected by any railways directly, but these places are inter-

connected with railways only by roads. Roads act as connecting links between those areas and railways, *e.g.*, the route to Shillong from Calcutta. Railways run up to Gauhati, and from there, we have motor vehicle route to Shillong, and this rail-cum-road transport accounts for the popularity of Shillong as a health resort. In such cases, where roads and railways are complementary, the road transport generally tends to add to railway traffic. India offers plentiful opportunities for developing this type of feeder roads. As yet in India, vast rural areas have no means of transport, and they can be easily turned into profitable economic regions if they are connected with railways through the roads, as feeders.

In addition, we may mention that India has not yet fully explored the possibilities of transport development. Both systems of transport, railways and roads, are full of great potentialities. If a rational transport policy is adopted, and the transport development is planned, both can yet be made to grow even without competing with each other. In view of the extensive areas of our country remaining without any system of modern transport, steps may be profitably taken to plan the transport development in such a way that roads and railways can progress not along competitive lines, but as complementary ones. A co-ordinated transport programme is a fundamental necessity for our country.

Transport by Canals and Rivers

Inland waterways consist of transport by rivers and canals, which do not include sea canal like the Suez wherein ply ocean-going vessels. Inland waterways have certain advantages of their own. Transport by inland waterways is convenient, because loading and unloading can be made near the direct places of transhipment and unloading. It is cheap, and can be adjusted to individual requirements. It is rather slow, and large vessels cannot pass through them so that traffic carried at one time is rather small. In India the majority of the routes remain unworkable throughout the larger part of the year owing to the silting up of the river beds. Routes are not uniform, and so

it is inconvenient on many occasions. The inland waterways transport is worked by steam boats, motor boats, barges, country boats, etc.

India's Inland Waterways

There are about 26,000 miles of navigable waterways in Northern India. The Indus, Ganges, Brahmaputra and Irrawaddy are navigable almost throughout the year. Their tributaries are also navigable to a large extent.

There are many rivers in India which are not navigable because of irregular currents. In adddition to the already mentioned navigable rivers there are all along the coast several navigable small rivers, creeks and backwaters. Even there are other inland navigation facilities over small rivers and they are mostly confined to the deltas and valleys of the great rivers.

Since the advent of the railways, the inland navigation has been suffering owing in many cases to unfair competition on the part of the railways. At one time agitation for building navigable canals acquired great force in India. Unfortunately it did not materialise in the face of growing railway profits. In India canals are developed for navigation, irrigation or both. Among navigable canals, the Ganges canal from Hardwar to Cawnpore and the Buckingham canal are worth mention. There are many irrigation canals in India. The possibility of connecting the river systems with canals is very attractive in certain parts of Bengal, Orissa, Sind and Madras. In East Bengal, the navigability of her river systems can be much improved by the construction of suitable canals. There is a great room for the development of inland waterways in India. A properly planned scheme of inland waterways development will go a long way towards relieving the congestion of traffic on the railway system. It will also help the small-scale transport within the country.

Tolls and Rates charged on inland waterways are fixed according to the class of goods transported. In fixing them the

authorities usually follow the principle of "What the Traffic will bear". Generally, maximum rates are laid down for the carriage of different kinds of goods.

Ocean Transport: Liner and Tramp

The ocean transport by means of steamers has now become very well developed. There are generally two kinds of ocean-going vessels, namely, (*a*) *Liners* and (*b*) *Tramps*. Liners usually run according to fixed schedules. Their sailings are at regular times and routes and are uniform and they must sail regularly irrespective of passengers and cargoes. Liners are mostly mail and passenger carriers though they also carry some amount of cargo. Tramps are meant to carry only cargo. They have no fixed time to sail nor any fixed route to go. They do not sail unless they have got full cargo. If any person charters a tramp, he must pay the full freight of the boat including the freight for the unoccupied place which is known as "dead freight". Liners are usually in a fleet, while tramps are single. There is now another class of liners known as *Cargo Liner*, which carries both cargo and passengers. Liners are generally owned and controlled by large steamship companies, whereas tramps by a single individual or a small company. Since tramps are many, there is a keen competition among tramps for freight. There is hardly any chance of concerted action among tramp owners who are many. Since tramps carry mainly cargoes and they are prepared to go any time any where, they under-cut liners in cargo freight. Bulk traffic is therefore controlled by tramps, while liners control freight for small consignments. Originally liners used to ply along one route or line, but this is uneconomic, because there may not be sufficient traffic on a particular line throughout the year. It is therefore more profitable to work on different lines, that is to say, multiple lines, and most liners are now under this multiple system. Gradually the competition of tramps became so severe that the several liner-owning companies merged themselves into holding companies to meet the competition. Liners usually make forward contracts, while tramps do not.

Control of Shipping

The ocean shipping is controlled both by the Government and non-official bodies. There are Government regulations regarding the registration of vessels and their measurement.

There is also Government control of pilotage, wireless equipment, collisions at sea, shipping casualties, etc.

Generally, the measurement of a vessel is decided by two factors, namely, tonnage and cubic space available. Popularly vessels are measured by tonnage, *e.g.*, a ship of so many tons. Gross tonnage refers to the entire space of the ship, while net tonnage is found after deducting from gross tonnage all space occupied by engine, crew and other accessories of the vessel. Tonnage is distributed as so much cubic feet per ton.

Every sea-going vessel is given a load-line which is technically known as *"Plimsoll Mark"*. It indicates the depth up to which a ship can sink herself. There are many load-lines which vary in different seas, because it is held that the immersion of a vessel depends upon salinity of water. It is highest in the Indian ocean during summer, and lowest in the North Atlantic in winter months.

Lloyd's Registry of British and Foreign Shipping

Lloyd's is a proverb in marine insurance. Lloyd's coffee-house was a famous meeting place for marine insurers, and in order to provide them with up-to-date and detailed information regarding every sea-going vessel Lloyd printed the *"Lloyd's List"* of ships in 1730 ; it was not published till 1864. Lloyd's list gave the details only about British vessels which were favourites with marine insurers. Hence a rival list giving information about non-British ship, was started. The two lists were amalgamated into one, namely the *Lloyd's Register of British and Foreign Shipping* in 1833. This is now the encylopaedia of shipping. It classifies ships, controls their designs and construction, specifies the materials to be used in building vessel. Lloyd's Register classifies ships both from the points of view of "Hull" as well as "Equipment". In order to be enlisted

in the Lloyd's Register, a vessel must be built according to the classification, design and approval of by the Committee of Lloyd's in charge of compiling the Lloyd's Register. This committee is an expert one, consisting of representatives of nearly all interests, of technical experts, of engineers, etc. Hence, it is reasonably expected that ships of the Lloyd's register are reasonably good. People also like to abide by Lloyd's specifications, because every ship should be on the Register, otherwise there will be difficulties in matters of insurance and other kindred things. Those ships which fulfil perfectly all conditions of Lloyd's regarding hull and equipment are classed as first class under "Al at Lloyds".

Rates and Freights

Owing to the competition of tramps, liners decided to join together and act in harmony to fix the rates. They organised their first conference in 1875, and there they agreed to charge uniform and equal rates for each of the ports from which their steamers sailed, and discontinue altogether all kinds of preferential rates. This is known as the *"Conference System"*.

The above system did not succeed much. As a result another system known as the *"Deferred Rebate System"* was evolved. Under this system any merchant who used a particular line for a fixed period was entitled to a rebate on their rates which were already paid. The rebate was paid after the loyalty of the shipper had been proved. This system worked well, but it was legally prohibited in some of the Dominions and the United States of America because it tended towards a monopoly.

The third system was, therefore, introduced to take the place of the second one where it was either prohibited or not practised, and is technically known as the *"Agreement System"*. Under this system the shippers and the steamship company enter into a contract by which the shippers agree to give all their traffic to a line in exchange for the latter agreeing to maintain regular services, steady rates and reasonably sufficient tonnage accommodation. The rate paid is the net rate, and the question of locking up funds with a liner company as in

the Deferred Rebate System does not rise. It ensures the loyalty of the shippers to a steamship company, and guarantees efficient service of the latter. This kind of agreement is found between Government and various liner companies regarding the carriage of mails. Such an agreement also prevails in South Africa between steamship companies and the South African Trade Association.

Indian Shipping

Though the prospect of building up an ambitious ship-building industry in India is being frequently mooted, Indians are yet very far behind in possessing both ships as well as any ship-building industry. The Indian ships are confronted with great difficulties in competing with foreign ships. Indian companies are under-cut in rates ; they cannot come within the ring of the Conference System and as such the deferred rebate and other rate-fixing systems are operating against them. The marine insurance companies are not prepared to class them as first class in spite of no defects as compared with foreign ships.

In order to develop a prosperous shipping industry worthy of its name in India, the Government should come forward with a policy of state aid, subsidy and bounty and a shipping industry is now growing in this country under state aid due to present war conditions.

Transport by Air

The air transport by means of aeroplanes and air ships is fast becoming popular, but its commercial uses have not yet become common. The air transport is very quick, but it is so expensive that commercial uses of air transport on a big scale have not yet become possible. The air transport is now mainly concerned with the passenger traffic and mails. Unlike railways or roads, there is no road or track to be constructed for the air transport. What is required is to construct aerodromes, which are used by aeroplanes for landing and starting purposes. Capital expenses and maintenance charges of airways are very expensive, and so air rates are necessarily very high. The air

transport is fast growing in India, and schemes of constructing aeroplanes in India have now matured due to the present war.

Law of Carriage

There are two kinds of carriers in commerce, namely *Common* and *Private*. A common carrier has been defined as a person or a body of persons engaged in carrying goods from place to place for hire by land, inland navigation for all who employ him for the purpose. He is also liable as an insurer of goods. Thus the owners of carriages, motor lorries, steamers, etc., and railways come within this category. A private carrier is a person who transports goods or passengers either occasionally or under special circumstances. Private carriers are governed by the law of contract.

Duties and Liabilities of a Common Carrier are as follows, unless they are otherwise governed by special contracts. Duties are: (*a*) to carry goods of all who are prepared to pay his usual charges, (*b*) to carry goods by the ordinary route without unnecessary deviation or delay, (*c*) to deliver goods to the consignor at such a place as expressly instructed by the consignee. Rights are: (*a*) he can refuse to take goods if they do not come under the class which he professes to carry or when there is no accommodation, (*b*) may refuse dangerous goods, (*c*) can claim freight for carriage and may detain goods until they are delivered to the consignee.

The Liability of a Common Carrier is governed by both the Common Law and the Common Carriers Act. His liability as an insurer is governed by the Common Law of England. He is liable for any loss or damage to goods entrusted to his custody for the safe carriage up to the point of destination. But his above liability ceases when any loss is caused by (*a*) Act of God, meaning any accident beyond the control of human beings, (*b*) Act of King's enemies, *i.e.*, acts of foreign enemies, (*c*) inherent defects of goods carried, (*d*) negligence of sender. His liability has been further modified by the Common Carriers Act of 1865 in case of certain scheduled articles. A common carrier is not liable for any loss of an article whose value exceeds

Rs. 100 and belongs to a scheduled group, unless its value and description are declared by the consignor. Gold, silver, precious stones, etc., are included in the scheduled articles, the list of which can always be added to by the Government, and in the case of these goods his liability is limited. He can also charge a higher rate for carrying these valuable goods than for carrying ordinary goods. His liability in the case of non-scheduled goods may be limited by special contracts. He is always liable for the loss or damage caused by criminal acts or negligence of himself or his agents. It is the law that before instituting a suit against him for loss or damage, a written notice of such loss or damage must be given him within six months of one's coming to know about the loss or damage. We have already discussed how the railway and steamer companies usually limit their liabilities as common carriers by means of special contracts.

Questions

1. Describe the rise and progress of mechanical transport in India. (M.A. Com. Cal., 1929).
2. A modern country enjoys three main kinds of transport, *viz.* by road, rail and water. Outline the chief economic characteristics of each, grouping your reply around three main points, *viz.*, nature of ownership, control and methods of operation. (M.A. Com. Cal., 1929).
3. What are the liabilities of a Common Carrier?
4. Discuss the controversy between Road and Railway.
5. Describe the different ways of fixing shipping rates.
6. Describe how the fixing of railway rates passed through several stages. Discuss the advantages of a Railway Clearing House.
7. Outline a plan for developing and co-ordinating the rail-road-river transport of India with a view to helping the business activities of the country. (M.A. Com. Cal., 1943.)

CHAPTER XXXIII

INSURANCE

Definition

Insurance denotes a contract in the form of a policy between the insurer and the insured, whereby the former undertakes to indemnify the latter against any loss to the insured arising out of a contingency as mentioned in the policy, in exchange of a sum of money known as premium paid by the insured to the insurer. In case of a life insurance policy, however, the insurer unlike in other types of insurance undertakes to pay to the insured a specified sum after a fixed period, or to his assignee on the happening of death of the insured. Though the latter type of insurance is strictly called "Assurance", while the former one "Insurance", in popular parlance the two terms are now synonymous.

Insurance is a vitally helpful institution in modern society. The modern economic system is impregnant with all sorts of risks, which can now be guarded against by means of insurance. Thus insurance, by stamping the present economy with a seal of security, has enabled the present system to work smoothly.

Marine Insurance

Insurance originated in this field, and a marine insurance policy is a contract of indemnity, which binds the insurer to indemnify the insured against marine losses, according to the conditions of the policy.

Lloyd's

A marine insurance contract can be given to an insured either by a company, or by private individuals, belonging to Lloyd's. Lloyd's is by far the most important body regarding marine insurance matters, and the bulk of marine insurance

business is underwritten by Lloyd's. Lloyd's is not only the pioneer in this field, but is actually leading the way so far as marine insurance is concerned.

Lloyd's is an incorporated society with members. As a corporate body, Lloyd's does not undertake any insurance business. Its members underwrite insurance business, and the society is not liable for its member's obligations. In order to maintain the traditional integrity and the goodwill of its members, Lloyd's in accepting any member pays particular attention to his financial position, and insists upon a big deposit security to guarantee his good conduct. Lloyd's has many useful functions especially in matters of maritime interest. It furnishes up-to-date information regarding vessels, cargo, captain, etc. Through its agents all the world over, Lloyd's is able to ascertain the exact destination of all sea-going vessels. In other words, Lloyd's provides any underwriter of marine risks with all requisite information, which is fundamental. The marine insurance underwriter must be armed with fullest information, before he can assess any marine risk and fix its relevant premiums. This maritime information is generally published in Lloyd's list, which is published daily.

Lloyd's Register of Shipping

In rating a particular marine risk, the essential information required is regarding the vessel itself. The degree of risk varies according to the sea-worthiness of the vessel. The Lloyd's Register of British and Foreign Shipping contains encyclopaedic information of vessels. The Register is compiled by a Committee, which is distinct from the incorporated association of Lloyd's, and conducted by shipowners, merchants, underwriters, marine engineers, etc.

Lloyd's Register of Shipping and the British Corporation Register of Shipping and Aircraft have decided to set up a joint committee to examine the possibilities of uniting the two classification societies with the object of providing more effectively the best possible services to shipping in the immediate future.

Marine Insurance Companies

In addition to individual underwriters of Lloyd's there are big insurance companies who are undertaking marine insurance risks. These companies usually get their business through agents who are authorised to underwrite risks within prescribed limits and in so acting the agents bind the companies. These marine insurance companies work in close co-operation with Lloyd's. They subscribe to the latter, because they must refer to the Lloyd's Register as well as other necessary information which is indispensable for underwriting a marine risk.

Broker

The importance of a broker or an agent is very great in marine insurance. The majority of this class of insurance is done both with Lloyd's and insurance companies through brokers.

It may be interesting to note how a broker acts. When a broker gets an offer of insurance from a client, he prepares in a slip of paper all the details of the insurance, and it is known as the "Original Slip". Then the broker sends the original slip to marine insurers, be it a company or an individual Lloyd's underwriter. If the underwriter is willing, he will put on the slip his rate and the amount which he is willing to cover. If the value to be covered by insurance is very large, the slip may be taken to several underwriters each insuring a part of the value. The original slip has no legal value. Brokers and insurers very often issue "Cover Notes" or "Open Covers" purporting to cover an insurable object temporarily before it is actually and legally covered by means of an insurance policy. Though cover notes are not legally binding, insurers always honour both cover notes and the original slip if there is a claim before the issue of a policy. An insurance policy must be duly stamped and countersigned in order to be a legal document.

If a broker has full information regarding an insurance from a client, he usually prepares a final slip known as "Closing Slip", or "Forward or Definite", containing all details of the proposed insurance, and passes it on to the insurance company. The

e arranged in case of deviation or change of voyage or
the exercise of any liberty granted to the shipowner or
F· P. A. ment, or of any omission or error in the description of

WAR CLAUSES

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ch the Committee of Lloyd's an Open Cover effected by *vesend Steel & Tinplate Co., Ltd.* with Underwriters at issue to *Messrs. John Poole & Sons, Ltd.,* duly stamped *)0,000 or equivalent in currencies* in all by any one steamer *and/or other Metal Goods, other interest held covered,* y port or ports, place or places in *the United Kingdom World ;* and that *The Grovesend Steel & Tinplate Co., Ltd.* ching thereto.

Clerk to the Committee of Lloyd's
Dated at Lloyd's London, 26th May, 1938.

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Dated at 19

company prepares the policy upon the basis of this slip. In case of Lloyd's underwriters, the broker does not pass the slip on to the underwriter, because he himself prepares the policy and sends it to the Lloyd's Signing Bureau for execution. Thus a broker is still more important for a Lloyd's underwriter.

Hull and Cargo Insurance

Three objects can be mainly insured against in a marine policy, namely Hull *viz.*, the vessel, Cargo and Freight.

In case of a Hull insurance the full value of a vessel is not generally covered by a policy deliberately by the insurer, who would always like the insured to bear a part of the risk. It is also required in order to ensure the honesty of the vessel owner. In the first place, the condition of a vessel and its value are well-known to an insurer either from Lloyd's Register or similar such document. Secondly, the owner is always the proprietor of his vessel, and so there may be the temptation on his part to overinsure a vessel, and also manipulate its destruction. This can be checked provided he is also made to bear a part of the loss.

The cargo insurance can cover the full amount and value of the goods, which generally tend to change proprietorship when they are despatched. Hence, the consignor has no interest in the over-insurance of the goods. In addition, the underwriter has got to depend upon the insured for the value of cargo.

Lloyd's and Company's Policies

Generally, a Lloyd's policy is signed by several individual underwriters at Lloyd's, each underwriting a part of the whole risk. When a claim arises, each insurer pays pro rata claims. The amount covered by each underwriter is mentioned by him under his signature. Though the risks covered by several underwriters form the value of the policy, each underwriter is responsible only for the amount which he has underwritten. There is no joint responsibility on the part of insurers. If any insurer defaults to pay, the insured will have either to realise the amount from the defaulting underwriter or go without it.

This separate risk-taking by many upon a single policy may be an advantage as well as a disadvantage. By spreading the risk, it is possible to insure for a big amount easily. In case of a claim, arising, money is quickly realised because each only pays a part of the full insured value. The question of default is more or less outside practical politics, because Lloyd's underwriters have the reputation of a redoubtable nature. The financial position and integrity of members are very high, and there has hardly been any case of default. The assured also is not required to approach every individual underwriter, because it is all prepared for him by the broker concerned.

An insurance company generally underwrites the full value of any policy. It does not become a part underwriter under normal circumstances. But an insurance company also does not remain on a big risk all by itself. It spreads the risk by re-insuring a part of the full risk with a sister company or companies. Though the assured obtains the policy from one company covering the entire risk, and it pays the full amount to the party in case of the claim arising, in practice the company will recover the re-insured amounts from the sister companies, which have undertaken the re-insurance on pro rata basis.

Warranty

What is a condition in an ordinary contract is known as a warranty in a case of an insurance contract. A marine insurance contract is based on warranties, expressed and implied. Certain conditions of the contract are clearly mentioned, while two conditions will be always deemed to hold good, whether they are mentioned or implied. In the first place, the vessel must be sea-worthy. That is to say, before the vessel starts either from the original port of embarkation, or from any intermediate port, it must be certified by the port authorities as quite fit to undertake the voyage. Secondly, the vessel must be used for a lawful purpose. No insurance policy is deemed to be valid, if the vessel is used for smuggled goods, or any other unlawful objects.

Types of Policies

Among the various types of marine insurance policies, the following are important: (1) In a *voyage policy,* the object is insured for a specified voyage, while in that of a (2) *time policy,* it is for a specified period. (3) A *mixed* policy is a combination of the above two, *viz.,* the object is insured for both a specified period as well as voyage. (4) A *valued policy* is one, where the value of the subject-matter of insurance is mentioned in the policy while in an (5) *Unvalued or open policy,* the value is not mentioned. (6) In a *Floating policy,* no mention is made of any particular vessel, it being stated to apply to any particular steamer to be declared for a specified voyage. (7) *Open cover* is another form of insurance on goods. This type of insurance contract is obligatory on the insurer in honour only and not legally; the insurer in such a case undertakes to issue regular policies to the insured for an amount not exceeding a specified sum by every vessel in which the insured is interested, the vessel sailing before a fixed date. Premiums are fixed beforehand, or adjusted later. (8) *Construction Builders' Risks Policies* are issued for a period exceeding a year and cover risks of vessels during their period of construction. (9) *Fleet Policies* are issued in one policy covering the whole fleet of liners belonging to one owner. (10) *Composite Policies* mean one policy which has been subscribed for by more than one insurance company, but the liability of each insurer remains separate and distinct. (11) *Port Risk Policy* is issued to cover the risk of a vessel while it is in a port during a stated period.

Marine Insurance Policy

A marine insurance policy is always prepared to suit each and every individual case, and therefore there may be various clauses in marine insurance policies. Some of these clauses are more or less common to all policies, while others are attached to policies in special cases. We shall discuss in this chapter the more common clauses.

Lost or Not Lost

When this clause is attached to a policy, it means that the insurer undertakes to make good the insured in respect of the vessel being lost irrespective even of the fact that the vessel was lost prior to the taking out of the policy, provided the insured was not then aware of the loss.

Sue and Labour Clause

This clause means that the insured or his authorised agents are entitled to take all steps for the preservation of the subject-matter of insurance in case of danger. The insurer agrees further under this clause to pay to the assured his share of expenses reasonably incurred for such a purpose.

Permission to Touch and Stay

This clause gives permission to the vessel to touch and stay in regular and due ports. No unreasonable deviation away from the usual course of navigation is allowed except in emergencies, *e.g.*, to save the vessel itself, or to rescue the lives of passengers.

F. G. A.

This means the Foreign General Average clause which states how average settlement under General Average is to be settled in a foreign country.

Running Down Clause

This clause states the arrangement between parties to the insurance, providing for how much the insurer will pay in case of a collision, which is caused by the wrong act of the insured vessel and in which the owner of the same vessel is made to contribute towards loss and damage as assessed by any Law Court.

F. C. & S.

This means the Free of Capture and Seizure clause, which states that there is no liability of underwriters in case the ship sustains any damage or loss owing to enemy's seizure or attempt

to take the vessel as a prize of war. This risk may be covered by the insured by paying an extra premium known as War Risk premium.

Continuation Clause

It sometimes happens that a time policy expires even when the vessel is at sea or in a peril insured against. In such a case the Continuation clause provides "she shall, provided previous notice be given to the underwriters, be held covered at a pro rata monthly premium to her port of destination".

"Waiver" Clause

Amongst others, this is an important clause very often attached to a policy. It declares that no act of the insurer or the insured in recovering, saving or preserving the subject-matter of insurance shall be considered as a waiver, or acceptance of abandonment. Hence, both the insurer as well as the insured can take all steps to minimise the loss of the object insured, without prejudice to their rights under the policy.

Salvage is a compensation paid to any person, who rescues a vessel, its part, cargo, or any other thing from shipwreck or danger.

Losses in Marine Insurance

Losses incurred in marine insurance by perils insured against may be of various kinds. A *total* loss occurs when the subject-matter of insurance is totally lost, whereas a *constructive* total loss occurs when the object of insurance though not really lost, yet may be considered to be so, for all practical purposes from the standpoint of the insured. As for example, a vessel starts for a particular voyage to be completed within a month. After six months of start, no news is received of the vessel ; no trace is found along the entire route, and the vessel is posted as "missing" or suppose the vessel is so damaged or stranded on a rock that to recover it, costs would be greater than its value ; therefore, it is abandoned by the owner. In both cases,

though physically the vessel may be in existence, from the standpoint of the owner, it may be deemed to be a complete loss, and such total loss is known as "constructive" total loss, *i.e.*, total loss by construction in law.

Any partial loss in marine insurance is termed an *'Average'*. Average is *General,* when the partial loss is to be borne by all interested in the vessel, proportionately. As for example, a case of general average occurs, when loss is incurred by the stranding of a vessel, or any jettison takes place. *Jettison* means that the captain or master of a vessel throws overboard a part of the ship's cargo for the general safety of the vessel itself. Jettison is a legitimate action of a captain, whereas if a master of any vessel or its crew throws away into water any cargo maliciously with a deliberate intention of causing embarrassment to the owner of the vessel, it is an illegal act and known as *"Barratry"*. In case of jettison, the loss incurred is a general average, and should be paid proportionately, by all underwriters interested in the vessel. As distinct from a general average we have got a "particular" average, which refers to a partial loss, incurred by any object insured by itself alone against a marine peril, *e.g.*, tins of biscuits are sent by a vessel ; but of those a few may get damaged by seawater. There we have an example of particular average, *i.e.*, loss special to a cargo and it must be borne by it alone.

In order to safeguard interests of marine insurance underwriters, very often, marine insurance policies carry the F. P. A. clause, *viz.*, the free of particular average clause states that no liability attaches to the insurer for any particular loss to a cargo, unless the vessel be stranded. By itself the clause does not give adequate protection to the insured, and so, generally, the F. P. A. clause is modified by saying that no particular average will be compensated for unless its value exceeds a certain percentage of the sum assured. This is done to stop flimsy claims of negligible amounts. The Memorandum attached to a policy generally states in details the liability of the insurer in Averages of all kinds.

York-Antwerp Rules

The adjustment of general average is usually governed by the law of the country of the destination of the vessel and as these laws vary in different countries, the adjustment of general average led to discontent. Hence, in order to obtain a uniform adjustment of general average, a code of rules was voluntarily accepted by nearly all marine insurance underwriters. The first code known as York-Antwerp Rules were framed in 1890 after holding Congresses at London, York, Bremen, Antwerp and Liverpool. Later, these rules were revised at Stockholm, and latest York-Antwerp Rules were framed in 1924. One or other of these rules is incorporated in almost every marine insurance contract for the adjustment of general average.

Average Adjustment

The statement of a claim may be prepared by the insurer, assured or broker. If the claim is of a complicated nature, it is generally referred to an *Average Adjuster* for settlement. He is an impartial and independent person who settles the claim in the most equitable way.

Letter of Subrogation

A Letter of Subrogation is a stamped document which is demanded by insurers from the insured in case of a total loss or partial loss in which part of the insured objects remains to be recovered, or if the assured has some right of recovery against any third party. The objects of such a letter are (*a*) to transfer rights of assured arising out of a loss, (*b*) to transfer assured's right to the title of goods insured to the insurer in case of a total loss, (*c*) to authorise the insurer to proceed against any third party on behalf of the assured, and guarantee to pay insurer all expenses caused thereby, and (*d*) to stress the importance of the responsibilities of assured to the insurer.

Assignment

Marine policies are assignable. Cargo policies should be freely assignable, because goods are constantly bought and sold,

and so rights in the policy covering the goods should be easily assignable in favour of any new buyer. These Cargo policies are often assigned blank, *viz.* the assignor puts in Blank Endorsement by simply signing at the back of the policy. Hence, policy money becomes payable to any holder. Endorsements on Hull policies are more specific, stating the name of the party in whose favour the policy is assigned. This is also necessary, because all assignments of Hull policies must be done with the previous permission of the insurer in writing. The change of ownership or control of a vessel can be made only with written permission of the underwriter.

Causa Proxima

It is now established in marine insurance that in order to make an underwriter liable for any loss, the loss must arise not only from the peril insured against but that the peril must also be the immediate or proximate cause of the loss. It should not be caused by the misconduct or fault of the assured. Thus, for example, a ship knocks against a hidden rock, is damaged and goes into a port for repair. During repairs cargoes of biscuits are loaded and unloaded, and in this process they are damaged. Though the damage of biscuits is indirectly due to the knocking of the vessel, the proximate cause is the handling of biscuits, and so the insurer of biscuits is not liable. This principle was decided in the case of Pink *vs.* Fleming.

Life Assurance

Life insurance is fundamentally a co-operative plan by which a number of individuals join, club together their money, and cover their risks of life.

A Life insurance policy is unlike that of either a marine or fire insurance, not a contract of indemnity. In life insurance, the event insured against must happen one day, while in case of marine and fire, the contingency may or may not happen. In a life insurance contract, the insurer agrees to pay a stated sum either to the insured at a stated age or to his assignee on death, if earlier. Thus, premiums paid in life insurance are

e following requirements as made by the
namely :—(a) Delivery of the policy with
documents necessary to show the title to
event and of the circumstances connected

s paid thereon shall be forfeited to and
on such terms as they shall think fit.

of THE......................................
amount due under the within policy.

Policy No..............

Age..........

WHEREAS the Assured describe
THE ASSURANCE COMPANY LIMITED
of a proposal and personal statemer

NOW THIS POLICY WITNESSET
first premium or first instalment of
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then
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an
th

1. *Indisputability of Policy.*—The po
ing the basis of the assurance having bee
material fact touching the health habits or
the policy will be void, but notwithstand
indisputable and unchallengeable except

2. *Days of Grace.*—A period of one ca
instalment of premium and 15 days' grac
and the sum assured thereupon becomes
within the period of grace the policy unl
as paid to the Company unless an officia
given for the same.

3. *Revival of Policy.*—In the event
calendar months after the day on whic
of the Company of the continuance in g
rate as the Directors may think prop

4. *Cash Surrender Values.*—Upon th
a cash surrender value will be paid by t
will not be less than one-fourth of the
such surrender value will in the like e
excluded.

5. *Non-Forfeiture and Paid-up Pol*
policy will not thereby become void bu

(*a*) If the number of premiums pa
vided such sum with existin
the original sum assured

(*b*) If the number of premiums
their Principal Place of Bu
becomes due and there pre
is not less than Rs. 100.
by the certificate of the lo

(*c*) After cessation of premiums

6. *War Risks and Aviation Risk*
Naval or Air Force Service then if th

(*a*) from any War or any insurr

(*b*) from the Assured engaging
the air or otherwise

(*c*) from the Assured engaging
the sum which but for this condition
greater of

(*i*) the total amount of the pre
of bonuses, cash surrend

(*ii*) the cash surrender value o
and not in any case exceeding the
provided the policy is in force at

7. *Suicide and Violent Death.*—
within two years from the date o
...ed by *bona fide* assignment

returned to the insured or his beneficiary some day, whilst in other types of insurance no consideration is paid as long as the risk insured against does not happen.

Kinds of Offices

A life insurance company may be either *mutual* or *proprietary*. A mutual company is owned by its policy-holders, who are entitled to its entire profits, while a proprietary or joint-stock company belongs to the share-holders. Now it is the practice of the latter to share profits with the policy-holders in the usual ratio of 10 per cent. for themselves and 90 per cent. for policy-holders, though legally all profits belong to the share-holders.

The Indian Insurance Act makes different provisions for these two types of companies in several matters. Thus, for example, no life insurance company other than a mutual company can now be registered unless it can show a working capital of Rs. 50,000 exclusive of deposit with the Reserve Bank of India to the extent of Rs. 2,00,000. Whereas in case of mutual company the working capital has been fixed at Rs. 15,000 and deposit with the Reserve Bank of India at the same figure of Rs. 2,00,000.

Forms of Polices

Broadly speaking, life insurance policies are either an *Endowment* or a *Whole Life Policy*. There are other types, too. In an endowment policy, the insurer undertakes to pay to the insured a specified sum of money after a stated age, or to his assignee in case of his dying earlier. Under a whole life policy, the sum assured is payable only on the death of the insured. In both types, however, periods during which premiums are payable are laid down as a condition in the policy contract.

A policy may be effected upon the joint lives of two or more persons so that in the event of death of any of the persons insured, the policy money becomes payable to the survivors. This kind of policy is known as *Joint Lives Policy*.

There are different kinds of policies issued in connection with children. They are called *Policies on Children's Lives*. A policy

may be issued payable to a child after a stated period either for education or marriage. If this policy covers any risk, it is the risk of the guardian's life. If the guardian dies, no more premium is payable. If the child dies, either the insurance policy is transferred to another child, or all premiums are refunded with or without interest. Another type of children's insurance is that a policy is taken on the life of a child, which gives him the facility of continuing a policy at a much reduced rate of premium after his attaining maturity. This kind of insurance is becoming quite popular.

Calculation of Premiums

The calculation of life insurance premiums is a complicated process done on a scientific basis by actuaries.

It has already been mentioned that life insurance is fundamentally a co-operative scheme. Each policyholder is allocated to pay a premium proportionate to his age and prospects of life, calculated on the basis of mortality tables. Premiums are so adjusted as to make the survivors pay rateably for those unfortunate few, who court death earlier. Since it is not possible to say who will die earlier, all are asked to pay equal rates for each age. The mortality tables are based on the theory of probabilities. After close observation mortality tables have been framed, and they now give nearly precise clues as to how many are likely to die at particular ages from a mass of persons, all of the same age. Premiums are composed of two parts, namely (*a*) *Pure or Net* and (*b*) *Loaded Premiums.* A net premium is that annual sum paid by a number of persons of a given age, accumulated at a certain rate of compound interest would be equal to the sum assured on death, whereas the loaded premium will contain additions by way of agent's commission, office expenses, etc., to the net premium.

Let us explain by means of a concrete example. Suppose 10,000 lives take out policies each for Rs. 100 ; they are aged 40, 1,500 die between ages 40 and 41. Out of the remaining another 1,360 die between ages 41 and 42. Then again another 1,214 die between ages 42 and 43. Therefore during the three years the

company is asked to pay a claim totalling Rs. 4,07,000. Supposing the company does neither earn interest, nor any profit nor incur loss, then it must have Rs. 4,07,400 to itself in the beginning, and since every body must contribute equally to it, each is asked to pay Rs. 40·74 in the beginning.

Now, if the company takes Rs. 40·74 from each in the beginning, it has to itself a fund of Rs. 4,07,400 out of which it pays Rs. 15,000, Rs. 13,600 and Rs. 12,140 in the first, second and third year, respectively. But the company does not keep the money idle for three years. It must invest it and earn some interest. So in order to cover the risks based upon mortality table, it is not necessary to take from each Rs. 40·74 but something less than this, i.e. Rs. 40·74 minus the probable interest yield. Hence interest enters into the calculation of premiums.

Then again the above premium only takes into consideration the risk and interest. The company must carry on, and it requires expenses which must be realised from the premiums. Then if profits are to be given to policy-holders additional premiums must be paid. Hence in making up the final premium we must add to the premium covering already risk and interest other percentages for expenses and profits, if there be any. Thus premium consists of (*a*) mortality risk, (*b*) interest, (*c*) expenses, (*d*) profits, if any. It should be remembered here that office expenses may be of two kinds, namely (*a*) *Initial expenses*, consisting of medical fees, policy stamp, agent's commission, other office expenses, and (*b*) *Recurring expenses*, composed of agent's commission on renewals and recurring office costs.

Mortality Tables

The prime requisite in life assurance is the discovery of a certain fixed scale of mortality deduced from observations of ages attained by human beings. These observations are compiled in what are known as Mortality Tables, which give a clue to the probable deaths likely to occur at certain age groups. The first kind of Mortality Table is found in the Northampton Table, compiled from Registers in the Parish of All Saints,

Northampton during the years 1735 to 1780. It was followed by the Carlisle Table, compiled from observations of the parishes of St. Mary and St. Cuthbert in Carlisle in 1780-87. Then the Equitable Assurance Society founded a table from the observations of its own policy-holders. Then another table was established in 1835 from the experiences of 83,905 policies of seventeen insurance companies, and it is known as the Seventeen Offices Table. Afterwards, English tables were compiled in 1843 and 1884 from the records of the Register-General for England and Wales. Later, came more scientific tables framed by the Institute of Actuaries, an association devoted to the study and research of the science of insurance. The Healthy Males Table known as Hm. Table, Healthy Females Table as Hmf. Table, Healthy Males excluding the first five years of assurance as Mm^5, have been now scientifically devised to form guides in life assurance business. The latest table which is now popularly used is the Om Table compiled from the experiences of assured lives of British Offices. As this table does not fully apply in case of Indian lives, modifications are introduced in applying it in India. The Oriental Government Security Life Assurance Company Ltd. of India, has compiled a Mortality Table based essentially upon experiences of lives assured in India, which is gradually becoming popular in this country.

FORM OF ASSIGNMENT OF ENDOWMENT OR SPECIAL WHOLE LIFE POLICIES

(OUT OF NATURAL LOVE AND AFFECTION)

I..

in consideration of natural love and affection do hereby assign the benefit of all moneys to become payable under the within Policy of Assurance No.......................of the . . . . . MUTUAL ASSURANCE COMPANY, LIMITED, on my life assuring the sum of Rupees.....................................to my wife...aged.................years, daughter of ....residing.. and declare that her receipt shall be sufficient discharge to the Company for the same *provided*, however, that in the event of my said wife predeceasing me, or in the event of my surviving the date on which the said Policy would mature, the benefit of the Policy and the right to

receive moneys thereunder shall revert to me as if this assignment had not been made.

Dated..................this..................day of..............................

....

(*Signature of Life Assured.*)

Witnesses :—

1. Signature..
 Name..
 Designation..
 Address..
2. Signature..
 Name..
 Designation..
 Address..

NOMINATION FORM

THIS FORM IS INOPERATIVE UNLESS ENDORSED ON THE POLICY.

I (full name) the assured under the within written policy hereby nominate my (state relationship and full name) as the person to whom the money secured under this policy shall be payable in the event of my death and I request that the . . . . . . Mutual Assurance Company, Limited shall register this my nomination and show a written acknowledgment thereof hereon in accordance with Sec. 39 (3) of the Insurance Act of 1938.

Dated at..................this..............19......

(*full signature*)

....

Witness :—

Signature..
Name..
Occupation..
Address..

Assignment

A policy may be assigned on generally the following grounds, namely (*a*) friendship, (*b*) love and affection, (*c*) money, (*d*) agreement by which assignor benefits either by the assignee doing or abstaining from doing any act. Assignment must be in writing either on a separate piece of paper or the back of the policy, and notice of it must be given to the company who on request will register the assignment and inform the assignee

about it. On assignment the policy should be transferred to the assignee. A policy may be wholly assigned, or a mortgage or lien given upon it for a particular sum. Assignment is irrevocable. The Indian Insurance Act allows now Nomination i.e. a policy may be nominated in favour of any body, but such nomination can be cancelled any time by the nominator.

Valuation

In order to find out the true financial position of a life insurance company, a technical process must be employed to examine its liabilities and assets, and it is known as a valuation. A valution may be done every seven, five or three years. Septennial valuation is now out of practice. Quinquennial or Triennial valuations are now popularly resorted to by insurance companies. The Indian Insurance Act provides that every life insurance company operating in India must make at least one valuation every five years. The valuation is done by an Actuary with the following main objects:—(*a*) to find out to what extent during the period under review the actual rate of (*i*) mortality, (*ii*) the net interest yield, and (*iii*) office expenses have exceeded or fallen short of the rates respectively provided for when the former valuation was made, or in the case of a first valuation when the premiums were formed ; (*b*) to ascertain the reserve which with future premiums accumulated must be sufficient to meet any future claims as they fall due, meet future expenses, and create profits, if possible ; (*c*) then to distribute any surplus left out to policy-holders and shareholders. If there be any deficiency, the Actuary will make suitable recommendations to put things in order. The rate of interest adopted for valuation is usually 3 per cent. in case of British companies, whereas it is usually 4 to 4½ per cent for Indian companies. The lower the interest rate adopted, the sounder is the basis of valuation, as well as of the company.

A surplus generally means the excess which appears over what was provided for in the former valuation for mortality, interest and expenses. What part of this surplus will go towards profits to be distributed is determined by the valuing Actuary.

Investment

We have already discussed how a Life Insurance Company should invest its funds in a previous chapter (XXVIII). In addition, the Indian Insurance Act has put the following restrictions upon investments of insurance companies transacting business in India. It is provided for that every Indian as well as British company (incorporated in United Kingdom) operating in India must invest at least fifty-five per cent of its policy liability in the following prescribed way, namely twenty-five per cent in Government securities, the balance either in Government or approved securities. Any other company must keep 100 per cent of its policy liability in the following way, namely 33⅓ per cent. in Government securities and the balance in either Government or approved securities.

Bonus

Profits which are distributed to policy-holders are known as *Bonuses*. A bonus is declared at a certain per cent. on the face value of the policy at each valuation, or it may be declared at so many rupees per the face value of the policy, *e.g.*, 2 per cent of the face value of the policy or Rs. 20 per 1,000 sum assured. The system of awarding a bonus varies in different companies.

In the same company there may be both with-profit and without-profit policies, and premiums in the former are usually higher than in the latter.

The common practice is to declare the bonus at a higher rate on endowment assurance than that on whole life.

Generally, a bonus vests in a policy and becomes payable with the policy on its becoming a claim either by maturity or death. It is not paid immediately after its declaration, nor does it become payable before the maturity of the policy. This is known as *Reversionary Bonus*. Companies may, however, allow in certain cases to take a bonus in cash, but such cash value of a bonus is highly discounted. A Bonus may also be utilised in certain cases to reduce the future rates of premium.

A policy becomes entitled to share in profits after it has been in force for some time. In this matter also the practices of companies vary. Some companies give bonus after a policy has remained in force at least for two or three years, while others give bonus from the very inception of a policy. Though a policy really earns profits after some time, the second method can be said to give profit as a grace as it were.

The rate of bonus which is declared is determined at each valuation. But a claim may occur in between two valuations, *i.e.* before another valuation becomes due. Then at what rate the policy which becomes a claim should get the bonus for this period after one valuation but preceding another? The bonus which is declared for this intervening period is called the *Interim Bonus.* It may be less than the usual rate of bonus. The usual practice is to give interim bonus at the same rate as declared in the previous valuation. When a policy starts obtaining bonus from the very beginning of the policy, it is also in the nature of an interim bonus, because it is given before a valuation is made on the new policy.

When a bonus vests in a policy, it is accumulated over a number of years, and is paid at the end with the policy when it matures, then it is known as a *Simple Reversionary Bonus.* Thus, for example, a bonus of Rs. 20 per Rs. 1,000 sum assured is given each year for twenty years, then on maturity after twenty years the total bonus on the policy becomes Rs. 400, and the total money paid on maturity is Rs. 1,000 + Rs. 400 = Rs. 1,400. But a bonus may also be calculated in a different way. After one valuation has already been made, during the next valuation which declares a bonus, it may be calculated not on the face value of the policy alone, but then the face value of the policy includes also all previous bonus additions for calculating the new bonus. Thus, for instance, a bonus is declared at 2 per cent. and the policy has been in force for ten years and has participated in bonus at the same rate for ten years. Then the bonus will be at the rate of 2 per cent. of Rs. 1,200 including Rs. 1,000 sum assured plus Rs. 200 on account of previous bonus additions. This is the system of *Compound Reversionary Bonus.*

Surrender Value

After an insurance policy remains in force for at least three years, in most cases, it generally acquires what is known as its surrender value. It is based on the reserve value of a policy, and is calculated at a certain percentage of the same, after allowing for (*a*) expenses, and (*b*) allowance for the increased rate of mortality.

The reserve value of a policy is built up from the premiums paid on account of a policy. When a premium is paid, a part of it is spent for agent's commission, office management, etc., and the remainder goes to build up a reserve for the policy.

The surrender value is never equal to the reserve value, because insurance is a co-operative plan, and so when any one withdraws, it means greater strain upon the rest, and more so, because in case of a surrender a good life is withdrawn giving more pressure upon rates of mortality. Hence, the deduction is made from the reserve value in order to safeguard the interests of the surviving policy-holders. When a policy is surrendered, the surrender value is paid, and the contract of the assurance lapses.

Paid-up Policy

In lieu of surrendering a policy, a policy-holder has the option of taking up a paid-up policy as well. That is to say, after a policy is paid up, no further premiums are payable, but the policy remains in force according to its original conditions except for a reduced sum, calculated according to the practices of the company concerned. A paid-up policy is allowed after a policy has remained in force for two to three years, *i.e.* after it has acquired a surrender value.

Automatic Non-Forfeiture

If the premium is not paid on a policy in due time, the policy lapses. It can, however, be revived by paying arrear premiums according to varying rules of different companies. But if a policy remains sufficiently long in force, say 2 or 3 years, to acquire a surrender value, then certain advantages are allowed

almost by all companies to the policy-holder in case of the policy lapsing. The policy may become automatically a paid-up one in the absence of any other expressed advice of the policy-holder. Some companies have the popular non-forfeiture clause under which if a policy lapses after acquiring a surrender value, the company will, in the absence of any contrary advice from the policy-holder automatically keep the policy in force by paying the premium which will be borrowed by the company from the surrender value of the policy. As soon as the premiums are paid up to the full amount of the surrender value, the policy lapses again, and the policy-holder can no longer claim any money on such a policy. A paid-up policy is preferable to the above system of non-forfeiture, because in a paid-up policy, the policy-holder is assured of a certain sum of money, while in the latter case he may lose all the money. The Indian Insurance Act now provides for a guaranteed surrender value for a life-policy on which all premiums for three consecutive years have been paid.

Annuity

An annuity means a payment which is made every year to a particular beneficiary who is called the Annuitant. Life assurance companies may undertake to pay to a certain person an income every year in exchange of either a lump sum or payments paid over a number of years. Annuity may be either *Annuity Certain* or *Annuity for Life*. Annuity Certain means annual payments given for a fixed number of years, while in Annuity for Life, the annuitant is assured of the annual income throughout life. As there is some element of risk in the latter type, there may be a medical examination of the Annuitant more or less on same lines as in a life assurance.

The advantage of an annuity is that one becomes secure of earning an annual income regularly without any risk of investment. In life assurance the entire money is paid in a lump sum, and the assured has to think about the investment, which is difficult and risky to some extent. The annuitant is relieved of this task of investment.

Fire Insurance

A fire insurance policy is a contract of indemnity, whereby the insurer undertakes to indemnify the insured against any loss incurred according to the terms of the policy.

Types of Offices

In fire insurance, premiums are charged according to risks concerned. Now various offices have joined in an association, whose members are called *Tariff Offices*, agreeing to charge fixed and equal premiums for similar risks, whilst *Non-Tariff* ones can demand any rates of premium which they think proper.

Forms of Policies

A fire policy may be a (1) *special* policy, whereby the insurer is obliged to indemnify the assured for a stated sum, irrespective of the fact, whether the subject-matter is insured for its full value or not. (2) It is called an *average policy*, when it is attached with an *average clause*. Under it, the insurer is liable to indemnify the assured to a value equal to a ratio which the insured value of the subject-matter of insurance bears to its total actual value. That is to say, if a property is worth Rs. 1,000, and it is insured for Rs. 500 only with an average clause then in case of fire destroying the property the assured is entitled to receive only half of Rs. 500, *viz.*, Rs. 250, and not Rs. 500, its insured value. Because, under the average clause, the insured will be considered to be his own insurer for the uninsured value of the property, and thereby, must be made to bear proportionately, in the event of any loss actually happening. The average clause safeguards the insurer against any under-insurance on the part of the assured. (3) In a *valued policy* the insurer is liable to pay the full stated value. It is popular in case of curios and precious relics, which cannot be replaced. The value insured for in such cases is settled before the policy is actually issued. These policies have proved very successful in cases, where the evalution of the loss is difficult of ascertainment, as the basis of fire insurance is indemnification for loss or damage, the onus of proof of the extent of the loss or damage rests upon the assured.

The insured must prove his loss or damage on the basis of the market value of the property damaged or destroyed. (4) A *floating policy* covers the risks of different properties, scattered over several localities. Floating policies which are largely used for mercantile risks cover fluctuating risks held, for example, in several warehouses. They contain also a second condition of Average, the object of which is to relieve the floating policy from liability to contribute to a loss which is also covered under a policy of more limited range, unless the latter insurance is insufficient to pay the whole loss in which case the floater applies to the balance of the loss, subject to average. Floating policies cover stock floating over the whole of a manufacturer's premises, but instead of the highest rate of premium of any one portion of the risk being applied to the whole, the average rate is adjusted and that rate charged for the entire risk.

Various types of special policies have been evolved to meet the conveniences of merchants and traders. An "Excess" Fire Policy is designed to meet the requirements of traders whose stock in hand tends to vary in quantity and in value from time to time. The risks covered are the same as those covered by the ordinary fire policy, but insurance need not be maintained for the maximum amount of stock which may be at risk at any time. The "Excess" policy tends to cover fluctuations in value at an average cost, the normal amount at risk being covered by an ordinary fire policy on a specific sum insured. The difficulty which arises under an "Excess" policy is that the holder of such a policy, who has a standard policy covering the main risk, may be penalised by the operation of the condition in the standard policy which limits the contribution of the standard policy to a rateable proportion only of the loss. Hence "Excess" policies have been generally substituted by "Declaration" Fire Policies, which are effected for a sum calculated to cover the maximum amount which may be at risk at any one time during the continuation of the policy, the premium being estimated by periodical declarations. "Adjustable" Fire Policies are those in which the assured notifies the Company of his requirements on each occasion that the value of the insured stock undergoes appre-

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MISDESCRIPTION.

1.—If there be any material misdescription of any insured or of any building or place in which such pro misrepresentation as to any fact material to be known or any omission to state such fact, the Company shall Policy so far as it relates to property affected by any s representation or omission.

RECEIPTS.

2.—No payment in respect of any premium shall be to the Company unless a printed form of receipt for the sa or duly appointed Agent of the Company shall have bee

INSURANCE WITH OTHER COMPANIES.

3.—The Insured shall give notice to the Compan Insurances already effected, or which may subsequently l of the property hereby insured, and unless such notice be of such Insurance or Insurances be stated in or endors on behalf of the Company before the occurrence of a Insured shall not be entitled to any benefit under this

FALLEN BUILDINGS.

4.—If the whole or any part of any Building hereb property hereby insured or the whole or any part of a is part shall fall or become displaced, all Insurance by contents shall cease unless the Insured shall prove that was caused by fire.

RISK NOT COVERED.

5.—The Insurance does not cover

(a) Loss by theft during or after the occurrence

(b) Loss or damage to property occasioned by natural heating (except as may be provid Condition 7f), or by its undergoing any hea

(c) Loss or damage occasioned by or through in burning of property by order of any public ranean Fire.

RISKS NOT COVERED EXCEPT UNDER CERTAIN CONDITIONS.

6.—The Insurance does not cover loss or damag proximately or remotely occasioned or contributed to b or in consequence of

(a) Typhoon, hurricane, volcanic eruption, eartl sion of nature or incendiarism directly therewith,

(b) Invasion, the act of foreign enemy, hostiliti (whether before or after declaration of war rebellion, the exercise of military or usurped tion of any place or area under martial la any of the events or causes which determin maintenance of martial law or state of seize, or indirectly connected therewith,

in the event of the Insured making any claim for los policy, he shall, if so required by the Company, produce of the Company that the loss or damage arose indepe directly or indirectly proximately or remotely occasioned in connection with or in consequence of any of the said oc directly or indirectly connected therewith.

RISKS NOT COVERED UNLESS EXPRESSLY INCLUDED.

the value of the insured stock undergoes appre-

ciable increase or decrease, *i.e.* before the risk is run, whereas in "Declaration" policies the insured declares the value of the stock at the end of a stipulated period. "Sprinkler Leakage" Policies are issued to indemnify the assured against loss or damage caused to buildings or their contents or both by accidental leakage of water from an installation of sprinklers, which automatically act on the raising of the temperature by fire, and spray water uniformly over the affected part of the premises.

Assignment

Though the insured is entitled to assign the proceeds of a policy, a fire or accident policy cannot be assigned without the consent of underwriters, except where the interest of the assured ceases to exist automatically by will or some other legal action.

How Claim is made and settled

When a claim arises in a fire insurance, it should be communicated immediately to the insurance company. The insured must make a claim stating the extent of the loss of the property and giving also the market value of the property with supporting documents, if possible, within fifteen days of the fire having broken out. The company may require an affidavit in support of the statement of the insured, if necessary. The company may send its agent or representative to visit the place of fire, who is entitled to enter the premises, destroyed or damaged by fire.

As adjustments in fire claims are very complicated, generally experts known as Assessors are appointed in order to settle fire claims. A fire policy often contains an arbitration clause, which provides for settlement of disputes between insured and insurer by means of arbitration. The insured may appoint one arbitrator, the insurer another. If the two arbitrators differ, then it is provided that they may appoint an Umpire, whose decision is final and obligatory upon the parties concerned.

Loss of Profits Insurance

Loss of Profits Insurance denotes that the assured who is a businessman can cover himself by means of an insurance policy

against any loss of profits owing to fire. This type of policy covers (*a*) loss of net profit, (*b*) payment of fixed charges, and (*c*) increased expenses of working due to hire of temporary premises, etc.

Motor Car Insurance

There are usually four kinds of *Motor Car Insurance* policies, namely (*a*) private motor cars, (*b*) commercial vehicles, (*c*) motor trader's vehicles, and (*d*) motor-cycles. Motor insurance policy covers risks of the physical body of the car as well as third party risks. Third party risks in Accident insurance mean that the assured is insured against any loss, injury or damage to third party caused by his negligence or his failing to exercise due care.

When all risks are covered premiums tend to be higher than that meant to cover one or a lesser number of risks.

Third party risks should be compulsorily covered by means of policies, especially in motor vehicles and similar other mechanical contrivances. In the absence of such an insurance if third party suffers, his loss must needs be recouped by recourse to Law Courts, and the actual payment of compensation to third party when allowed by Courts will again depend upon the capacity of one who pays. This difficulty of financial incapacity of the person liable to pay is obviated by means of an insurance policy, which makes the insurer to pay. Thus, for instance, if a third person is killed or wounded severely, damages must be paid by the owner of the car. Now if the owner is unable to pay, the claimant goes without any payment. This is safeguarded if third party risks are covered. Though the new Motor Vehicles Act of India has enacted in favour of compulsory third party risks insurance for all kinds of motor vehicles, this provision has not yet been put into practice. The sooner it is done, the better.

Employer's Liability Insurance

The employer is liable to compensate the employee or his representative both in Common Law and enactments like Work-

men's Compensation Act in case he is injured, causing disablement or death, or even certain occupational diseases. This liability of the employer can be covered by means of an insurance policy, *i.e.* the insurance company will undertake to pay any claim for damages on behalf of the employer who is insured against such a risk for any injury or death caused during the course of employment, in exchange of premiums paid by the employer to the company. The rates of premium are adjusted according to wages of workers. Hence, the insured employer must maintain an Wages Book to be inspected by the insurance company at its will. An abstract of the book must also be submitted regularly every year to the insurance company. This kind of policy usually contains a clause which frees the insurance company from all liabilities regarding employees working under the sub-contractor of the insured employer. But such a risk may also be covered by payment of extra premium. In case of such an employer's liability insurance, any notice of accident, claim for damages must be forthwith communicated to the insurance company. In this kind of insurance policy there is always an arbitration clause which means that in case of a dispute arising between the insured and the insurer, it is referred to an arbitrator for settlement. This kind of insurance is done mainly by British companies. There are very few Indian companies transacting this kind of insurance business. [For the working of the Workmen's Compensation Acts in India, see Chapter XXXV.]

National Health Insurance

Compulsory insurance against sickness of practically the entire working class has been introduced in the United Kingdom by the National Health Insurance Act of 1911 as amended in 1924 and 1928. Any worker between ages 16 and 70 earning less than £250 per annum must be compulsorily insured against sickness, and those who work with hands must be so insured even if they earn more. Insurance may be effected in two ways, *e.g.* a worker may become a member of an approved society or a

composite contributor. The cost of insurance is shared by workers, employers and state. In addition to medical benefits, there are free dental and optical treatments, and other advantages.

RATES

(1932, MAY)

	Worker's Contribution	Employer's Contribution
Men ..	.. 9*d*. per week	9*d*. per week
Women	.. 7*d*. per week	6*d*. per week

PAYMENTS FOR SICKNESS

(1932, MAY)

Men	15*s*. per week
Women	12*s*. per week

Unemployment Insurance

Insurance against unemployment has been compulsorily introduced in the United Kingdom for all workers who are covered, by the National Health Insurance Act excepting domestic servants and agricultural workers. The cost of insurance is divided amongst workers, employers and the state.

RATE

(1932, MAY)

	Worker's share	Employer's share
Men	.. 10*d*. per week	10*d*. per week
Women ..	.. 9d. ,, ,,	9d. ,, ,,
Youths under 18	.. 5*d*. ,, ,,	5*d*. ,, ,,
Girls under 18	.. $4\frac{1}{2}d$. ,, ,,	$4\frac{1}{2}d$. ,, ,,
Girls under 18	.. $4\frac{1}{2}d$. ,, ,,	$4\frac{1}{2}d$. ,, ,,

RATE OF BENEFITS

(1932, MAY)

Men over 21	15s. 3d.	per week
Young Men 18-21	12s. 6d.	,, ,,
Boys 17—18	8s. od.	,, ,,
Boys 16—17	5s 6d.	,, ,,
Women	13s 6d.	,, ,,
Young Women 18—21	10s 9d.	,, ,,
Girls 17—18	6s. 9d.	,, ,,
Girls 16—17	4s. 6d.	,, ,,

Increased rates are allowed to married people and those who have children.

Burglary Insurance

It is now possible to cover the contents of private dwelling-houses against burglary, house-breaking and larceny by means of insurance policies. The contents of business premises are covered only against burglary and house-breaking, as theft by customers and employees is too great a risk to be covered. Other forms of burglary policies tend to cover "all risks" insurances on jewellery, furs, etc. ; "baggage" insurance on luggage in transit ; insurance on cash and securities in transit, etc.

Fidelity Insurance

The employer can now cover himself against any loss following embezzlement or larceny on the part of his employees by taking up a Fidelity Insurance policy. It may cover the loss against misbehaviour of a particular employee or all employees taken together. Fidelity insurance cannot guarantee faithfulness and honesty, but it guarantees payment as compensation in case of any misbehaviour on the part of employees. Bonds are issued to Government Departments covering the risks of certain types of Government employees. Court Bonds are issued in case of administration of an intestate's or lunatic's estate, and they tend to guarantee the proper administration of the estate concerned.

Fidelity insurance covers an employer provided he exercises due care and diligence. Generally a fidelity insurance policy is

not issued to an employer unless he can satisfy the insurer that he usually exercises due checks and proper supervision over his employees.

Personal Accident and Sickness Insurance

There are usually four kinds of policies covering (*a*) personal accidents only, (*b*) personal accidents and only certain stated diseases, (*c*) personal accidents and all kinds of diseases, (*d*) personal accidents and diseases up to a certain age of the insured.

War Risks Insurance

During this war period, the Government of India has introduced compulsory War Risks Insurance, covering properties and factories of a specified value. Under these schemes it is laid down that properties and factories of a certain minimum value must be compulsorily insured against loss due to enemy action. Premiums at a certain fixed percentage of the value of the property concerned must be paid to the Government, who is the insurer in these cases.

Miscellaneous Insurance

There are various other types of insurances covering risks nearly of all kinds. Thus, for example, boilers are covered against explosion, lifts, steam, gas engines, etc. against mechanical breakdown. Bad Debts Insurance is also gradually coming to be popular.

It may be pointed out here that as yet there is no scheme of social insurance in India. Recently the Government of India appointed a Committee to investigate into the possibilities of social Insurances in this country and is now considering various schemes based on the recommendations of the Committee. It is now expected that in the near future the Government may introduce schemes of unemployment, sickness, old age pensions, insurances, etc. as applied especially to workers.

TERMS AND PRINCIPLES IN INSURANCE

Proposal

The *Proposal* form is generally printed. It serves as an application by the insured to the company for the issue of a policy. In it must be answered all questions relating to the proposed risk. Answers and statements must be made truly to the best knowledge of the proposer under his signature. Any wilful misstatement with a view to fraud may invalidate the policy contract. It must be made on the principle of utmost good faith. No suppression of fact relating to the assessment of risk should be made. The proposal form is the basis of the policy contract. In case of a fire policy, a proposal form may not be required, especially when the proposed risk must be surveyed before the issue of the policy.

Endorsement

An endorsement is affixed to a policy to provide for a certain special requirement not otherwise provided in the text of the policy. An endorsement overrules any printed matter in the text of the policy. Endorsement must be properly countersigned.

Warranty

Warranty may be express or implied. It means a promise by the insured to fulfil certain conditions. If the warranty is not properly honoured by the insured, the insurer may invalidate the contract.

Cover Note

It means a letter either written or in a printed form which is issued by a company to the insured covering the risk proposed pending the issue of the proposed policy or the decline of the proposal. The Cover Note is usually subject to the same conditions and terms as found in the policy. It is issued whether premium is paid or not. If premium is paid, along with Cover Note a deposit receipt is attached, acknowledging that the

premium has been deposited on account. Cover Note is generally used in fire and accident insurances.

Days of Grace

In life policies, the policy-holder is allowed to pay his premium within a few days after the due date of the premium. These extra days allowed are kown as *Grace Days,* which are also found in fire, accident and other kinds of policies.

"Ex Gratia" Payments

Very often there arises a case in insurance where an insurer is morally liable for a claim not legally enforceable as when there is an innocent misrepresentation by an agent or a genuine misunderstanding by the insured. In such a case, the insurer makes payment without prejudice to the insured regarding losses for which the insurer is not legally liable.

Occasion for such payment may very commonly arise in marine insurance, when a claim arises before the issue of the policy. Any claim in marine insurance is generally honoured by insurer once the terms of insurance are agreed upon between the insurer and the insured in spite of no legal liability of the insurer. Such payment is known as "Ex Gratia" payment.

Insurable Interest

Originally, insurance was very much resorted to for gambling. People gambled on the expectation of certain event. In order to purge insurance of this vice of gambling, the principle of insurable interest has been evolved. Now no person can legally take out an insurance policy unless he possesses some insurable interest in the subject-matter of insurance. He must have some pecuniary interest in the object insured. There must be an insurable interest in every insurance contract or the latter becomes void or an illegal contract. An insurable interest must be definite, capable of valuation, valid, and legal. An insurable interest may exist under the following conditions, namely (*a*) there must be some physical object on which the insured peril may act, or some potential liability which may be brought about by the peril insured against, (*b*) the object or the

potential liability must form the subject-matter of insurance, and (*c*) the assured must possess some legal relation with the subject-matter of insurance in such a way that he either stands to benefit by the safety of the subject-matter, or suffer by its loss.

In life assurance, insurable interest is possessed by (*a*) every person in his or her own life, (*b*) a creditor in the life of his debtor to the extent of the loan, (*c*) a trustee regarding the interest of which he is the trustee, (*d*) wife in the life of her husband, (*c*) husband in the life of his wife, (*f*) a surety in the life of his principal, (*g*) a business partner in the life of his co-partner, etc.

In fire insurance, insurable interest exists in a person who is the owner of the property, or is in possession of it, or the buyer of it, or its lessee, trustee or beneficiary under a trust. A mortgagee or a person who has a charge on a property has an insurable interest in it. A person who may be held liable in case of destruction of a property also possesses insurable interest in it.

In marine insurance, every one who is interested in a marine venture possesses an insurable interest. One who stands to benefit by the safety of the subject-matter of insurance or suffer by its loss in marine venture possesses an insurable interest in it. Thus, for instance, ship-owner and cargo-owner possess insurable interest in respect of the value of their interests, mortgagee or consignee to the extent of the value of his claim, the master and crew in respect of their wages, the lighterman in respect of his liability in loading and unloading, etc.

Life insurace confers upon the assured to insure his life to any amount, because life assurance policy is a contract to pay a certain sum of money on the happening of a certain event which must occur, while other types of insurance contracts are mostly contracts of indemnity.

Insurable interest must exist in life assurance at the time of taking out the policy, and not necessarily at the time of the claim ; in fire and accident assurances, it must exist both at the time when the policy is taken out and when the loss happens ; in marine insurance, it must exist at the time of loss only.

Reinsurance

Reinsurance means insuring the already insured risk over again. That is to say, if a company has accepted a risk, it reinsures either the whole or part of the same risk again with another company. Insurance policies are very often issued for large sums of money, especially in life, marine and fire, and if the risk actually happens, then if only the original insurer keeps to itself the entire risk, his loss will be enormous. Hence, the system of reinsurance is mutually helpful ; it helps the insurance companies to spread their risks amongst themselves. Though it also enables a company to pass on to others a bad risk, such a step should be discouraged, and can be guarded against if the reinsurer is careful.

Reinsurance may be effected in two ways, namely, *Facultatively*, or by means of a *Treaty*. We have got an example of a *facultative* reinsurance, when the reinsurer is *free* to reinsure a particular risk, or a part thereof, and according to his own conditions. He may as well decline the risk offered for reinsurance.

In cases of *treaty* reinsurance, there is no choice left to the reinsurer. When reinsurance is done by a treaty, it means that the reinsurer has already agreed to reinsure from the original insurer up to a specific amount within a specified period.

Usually, a reinsurance treaty is mentioned in terms of lines. Thus a four-line treaty confers automatically the power upon the original insurer to accept a risk for four limits in addition to his own, viz. if his limit is Rs. 3,000, he can easily be on a risk of Rs. 15,000, the excess of Rs. 12,000, will be reinsured under the terms of the four-line treaty. Generally, there are companies, which specialise in reinsurance business only.

Principle of Utmost Good Faith

Every insurance policy is in form of a contract between the insurer and the insured. Like any other contract, a policy contract is also based upon certain conditins, to be mutually given out by both insurer and insured. In expressing these conditions, it is expected that parties will act in utmost good faith which is

fundamental in insurance. More often than not, especially in marine insurance, a policy is just issued simply on faith. Conditions must be truly stated, because rating of a risk will depend upon all information, given by an insured relating to any particular risk. Any suppression of a material information regarding any risk, may invalidate an insurance policy contract.

Questions

1. Define the expressions: (1) Valued policy, (2) Open policy, (3) Time Policy, (4) Floating policy. (B. Com. Cal., 1926.)
2. What do you understand by "Jettison"? Explain fully the principles governing General Average and give an example of a General average Adjustment. (B. Com. Cal., 1927.)
3. In a G/A sacrifice, how are the contributions of ship, freight and cargo determined? When is Marine Policy assignable? How can it be assigned? (B. Com. Cal., 1928.)
4. A contract of Marine Insurance is a contract founded on the utmost good faith. Examine this statement and show how far it is justified. (B. Com. Cal., 1931.)
5. What is the necessity of a "quinquennial" valuation in life insurance office? What do you understand by 'a bonus of Rs. 25 per thousand has been declared on endowment policies'? (B. Com. Cal., 1932.)
6. State and explain the various implied warranties in the case of a marine policy. (B. Com. Cal., 1934 and 1936.)
7. In an Accident Insurance Policy, what is meant by the following terms: (*i*) Complete Disablement; (*ii*) Partial Disablement; (*iii*) Ex Gratia payment. (B. Com. Cal., 1937.)
8. Explain carefully the procedure for insurance adopted at 'Lloyd's'. What is implied when goods are insured 'F. P. A.'? (B. Com. Cal., 1938.)
9. What is meant by the following types of insurance? Explain their utilities in commerce. (*a*) Marine Insurance, (*b*) Fire Insurance, (*c*) Employers' Liability Insurance, (*d*) Third Party Risks Insurance. (B. Com. Cal., 1940.)
10. What utility, if any, have the following types of insurance in commerce?—(*i*) Fidelity Guarantee; (*ii*) Burglary; (*iii*) Fire; and Workmen's Compensation. (B. Com. Cal., 1938.)
11. What is meant by Fidelity Guarantee Insurance?
    Describe the various considerations that arise in connection with this type of insurance policy.
    Is it really possible to guarantee fidelity? (B. Com. Cal., 1941.)

12. How does a life assurance company determine the amount of premium to be charged on each policy? (B. Com. Lucknow, 1924.)
13. Compare the function of a Bank with that of an Insurance Company in financing trade and industry. (B. Com. Cal., 1932.)
14. Explain in full the system of marine insurance known as Lloyd's. (B. Com. Lucknow, 1923.)
15. Give a short account of the Lloyd's insurance organisation explaining in particular the method of operation of Lloyd's underwriters in effecting insurance. (M.A. Com. Cal., 1928.)
16. What is meant by the following terms in Marine Insurance :— Average, Subrogation, Causa Proxima and Jettison? (B. Com. Lucknow, 1924.)
17. Define and discuss F. P. A. policy, insurable freight, lost or not lost to clause as applied to marine insurance policies. (B. Com. Allahabad, 1926.)
18. When is a marine insurance policy assignable? How can it be Assigned? (B. Com. Cal., 1928.)
19. What do you understand by the following terms? (*a*) Charter policy, (*b*) Bill of Lading, (*c*) Demurrage, (*d*) Salvage. (B. Com. Cal., 1926.)
20. Define A. (1) Valued Policy, (2) Open Policy, (3) Time Policy, (4) Floating Policy. B. What are the principal clauses of marine insurance policy? C. Distinguish between actual loss and constructive loss. (B. Com. Cal., 1926.)
21. In a G/A sacrifice, how are the contributions of ship, freight and cargo determined? (B. Com. Cal., 1928.)
22. Give a short account of the origin, development and present method of working of what is known in the shipping world as the Corporation of Lloyd's. (B. Com. Cal., 1935., Lucknow, 1923.)
23. A contract of marine insurance is a contract of utmost good faith. Examine this statement and show how far it is justified. (B. Com. Cal., 1931.)
24. Give a short account of the Lloyd's insurance organisation explaining in particular the method of operation of Lloyd's underwriter in effecting an insurance. (M.A. Com. Cal., 1928.)
25. What is Jettison? Explain fully the principles governing general average, and give an example of general average adjustment. (B. Com. Cal., 1927.)
26. Explain what is meant by each of the following: Workmen's Compensation Insurance, Fire Insurance, insurance against loss of profits through fire. (M.A. Com. Cal., 1929.)
17. Comment on the main factors that are taken into account in determining the rates of premia for whole-life and endowment "with profit" policies. Why are quinquennial valuations necessary in the Insurance Companies? (M.A. Com. Cal., 1943.)

CHAPTER XXXIV

CO-OPERATIVE MOVEMENT

Co-operation means an association of individuals aimed to achieve common ends, economic, social and educative. It is, hence, both an economic and a moral principle. The moral and educational aspects of co-operation have always been stressed by the sponsors of the movement. It is an association for mutual benefit, and practises the motto of "all for each and each for all". People associate themselves together to obtain certain economic ends, and to secure for themselves gains which would, otherwise, go elsewhere. In its economic aspect, co-operation strictly restricts itself to benefiting its members and exclude completely the idea of making any profits, whatsoever.

Producers' Co-operation

In the economic sphere, the co-operative movement has developed in various forms, amongst which the producer's and consumer's co-operative types of institution rank prominent. Producers' co-operation is found when workers combine together into a form of society for the purpose of undertaking production themselves, in order to get rid of the capitalistic entrepreneurs. It is a democratic management of industry and production. Unfortunately, however, this type of co-operation, especially, when applied to industrial production has not much succeeded, and its scope therein has been limited by its own inherent nature.

Producers' co-operative unit when engaged in a line of production, which is competitively carried on by big capitalists under a large-scale system of production has failed to compete with the latter. Workers manage democratically a producer's co-operative unit, and fail to bring in there that amount of expert knowledge and skill of management, which may be supplied by private individual entrepreneurs. It is especially handi-

capped in that line of industrial production, where a vast capital outlay is generally required.

The producers' co-operative movement has, however, succeeded in those spheres of production, where a large capital is not necessary, nor, much technical and expert knowledge of management is required. It is, therefore, particularly adapted to agricultural production and cottage industries. It has made conspicuous progress in agriculture in countries like Denmark, Ireland and the United States of America.

Consumers' Co-operation

In the sphere of consumption, co-operation has been crowned with commendable success. Individuals have combined together to form societies to cater to their own consumption. In this type of co-operation, the movement has taken the form of starting co-operative stores. Individuals who start such co-operative stores become the members of the latter, and they avow themselves to buy all their commodities from such stores. It is generally the practice of these stores to sell at prevailing market prices, and profits of the stores are generally distributed amongst members on the basis of their purchases, whose records, are carefully kept.

By having such stores, individual consumers can retain for themselves a large part of the profits of sales, which would otherwise go to the pockets of the middlemen, wholesale and retail traders. The elimination of the middlemen is the fundamental objective of the consumers' co-operative movement.

Individual consumers by contolling as they do, their own stores can very well stock only goods of quality and mark according to their own tastes and needs. These stores can also profit by buying commodities in the market on wholesale basis at comparatively cheap rates. Some of the co-operative stores in England and other foreign countries have so successfully expanded that they are now even manufacturing some of the commodities, which they actually require. Such co-operative production is generally restricted to goods of simple and standard quality and size. Co-operative stores when successfully established can start some production with confidence as they are

guaranteed a fixed sale. Sometimes, the co-operative stores also sell to ordinary public like any other retail shop in addition to supplying goods only to members.

Co-operative Movement in India

Co-operation in India was initiated in agriculture, and especially to its finance. Indian agriculture was beset with drawbacks and defects for reasons more than one, and in order to rehabilitate our agricultural economy on a sound basis co-operation was introduced. Because, co-operation has already proved a boon to the agricultural economy in other lands.

The cultivators in India were heavily debt-ridden, and they had to depend upon private money lenders for short-term credit, and as such paid heavy and exorbitant rates of interest. Co-operative credit societies were started with a view to dealing with this important problem of agricultural finance. Gradually, co-operation was extended to embrace other spheres of agricultural activity like its production, sales and marketing and also other non-agricultural activities of our national economy. Even now the co-operative movement offers vast possibilities of expansion, because as yet it has only touched the fringe of the problem.

The co-operative movement in India was first officially introduced by the Act of 1904 which legalised only credit societies. Gradually, however, the necessity for other forms of co-operation was realised and so the Act of 1912 was enacted. It recognised non-credit forms of co-operation affecting purchase, sale, production, etc. It also recognised three kinds of central organisations, namely, (*a*) Unions consisting of primary societies for mutual control and credit, (*b*) Central Banks, composed partly of individuals and partly of societies, and (*c*) Provincial Banks, consisting of individuals. Then in 1914 the Maclagan Committee was appointed to enquire into the co-operative movement, and suggest improvements. Afterwards, co-operation was made a Transferred Subject by the Reforms Act of 1919, and placed under the charge of a Provincial Minister.

The following chart will clearly show the classification of the co-operative movement in India.

Co-operative Societies
- Primary
  - Credit
    - Agricultural
    - Non-Agricultural
  - Non-Credit
    - Agricultural
    - Non-Agricultural
- Central, consisting of Unions, Central Banks, Provincial Banks

The co-operative movement in India is mainly concerned with agricultural credit. The credit movement is in the form of a pyramid. The basic societies are the primary credit societies. These credit societies are by themselves not sufficient to provide rural areas with funds supplied from their own sources. They require finance, which cannot be supplied by ordinary joint-stock banks, because they are not prepared to finance long-term loans which are required by agricultural credit societies. Hence, there are co-operative Central Banks on top of the credit societies. These banks consist either of individuals or societies or both. In Bengal, Central Banks consist entirely of societies, which are supervised and controlled by the former. The Central Banks are essentially financing agencies. They supply credit societies with the requisite finance. The success of the co-operative credit movement depends to a very large extent upon the successful working of these Central Banks. They must raise funds, supply credit societies with them, control and guide the credit societies in such a way that they may not go into bad debts. On top of these Central Banks, there are Provincial Co-operative Banks. The Provincial Bank is the apex bank. It consists mainly of individuals. Its main object is to finance the Central Banks. The Provincial Bank should follow a cautious policy, and guide the Central Banks along prudent and sound lines.

Even in matters of agricultural credit, the co-operative movement cannot claim to have an unmixed success. Barring Madras and the Punjab, the experience of the movement, especially in Bengal is far from what is desirable.

Various reasons may be ascribed to the failure of the co-operative movement in India. Co-operation suffers too much from officialdom, red-tapism and spoon-feeding. The Government, especially, in Bengal, has neglected to infuse a real spirit of co-operation among the people. The movement has been steered by officials, who possess inadequate knowledge and experience of co-operation. The agricultural credit societies are now faced with a crisis. Their funds are locked up, because credit societies have been allowed to deviate from its proper function of financing short-term credit to that of long-term. They are saddled with over-dues resulting from a lack of vigilant control, bad debts, and favouritism. The honorary workers in the movement are not properly educated in co-operative principles and methods, and so the movement has gone on wrong lines. The members of various co-operative societies are not real co-operators ; they are not properly educated, nor trained ; they do not understand what co-operation is, nor are they taught to do so. They regard the movement as an institution imposed upon them by the Government.

In order to purge the co-operative movement in India of its evils, it is vitally necessary that right measures are taken to steer the movement along its legitimate lines. Officials who control the movement should be properly trained. Attempts should be made to slacken the official control, and leave the movement to grow from within. People ought to be taught the fundamental principles of co-operation.

Properly guided, the co-operative movement bids fair to become an indispensably useful adjunct of agricultural economy. Agricultural production, sales, marketing, grading, etc., can be effectively improved through co-operation in India.

In other aspects of economic life, especially, in distribution, the experience of the co-operative movement should be utilised to our own advantage. Consumers' co-operation has not succeeded, nor has it expanded in India owing to alleged infidelity of members, their irregular income, bad management, etc. This part of the movement is inherently beneficial, and has brought

untold advantages to consumers, and it is firmly believed that if it is properly tried in India people will gain enormously.

Co-operation, if rightly applied will serve as a very powerful educative weapon. It will raise the standard of morality, inculcate thrift amongst people, infuse into them democratic ideas, and engender a common feeling of brotherhood.

Questions

1. What is a Central Co-operative Bank? Show how it can finance agriculture in rural areas. (B. Com. Cal., 1935.)
2. Of late, various complaints about mismanagement and acts of misfeasance have been reported about Co-operative Credit Societies. As the work is managed mostly by honorary workers, who profess to do it just for the love of it and generally for doing good to humanity, explain why or how any scope or occasion for the above complaints may arise. (B. Com. Cal., 1940.)
3. Explain the points of similarity and otherwise between a Co-operative Society and a Joint Stock Company. (B. Com. Cal., 1934.)
4. Describe critically the history of the Co-operative movement in India.
5. Distinguish between different forms of Co-operation.
6. Describe the organisation of a Co-operative Sales Society. How will you organise one such Society for marketing jute? Where is the finance necessary for the purpose to come from? (M.A. Cal. 1943.) (M.A. Com. Cal., 1943.)

CHAPTER XXXV

THE STATE AND INDUSTRY

The State

The common function of the state is to maintain order and peace within a country. There is, however, a controversy whether the state should interfere with the economic life of its citizens. There are two extreme views. One holds that the state should follow a policy of complete *laissez faire* in economic matters, while the other maintains that the state should own and control all means of production in society. The concensus of opinion favours a *via media i.e.* neither of the above two views are desirable but something of each should be actually practised by the state. There should be individual freedom in economic life with checks and balances of the state whenever required. There are some industries and services which should be owned and controlled by the state. The Government exists to attain maximum welfare of its citizens, and state's interference in the normal economic life should be guided by this test of "greatest good of the greatest number."

The Government of India is also following this mean policy in economic matters. Industries which are considered to be fit for state ownership and control are either state owned and controlled, or are being gradually taken over by the Government. The major part of the Indian railways is now state owned and state controlled. The Post Office is a state monopoly. The Government has now purchased all the private companies who own and control the telephone systems of principal towns in India.

The Government has various departments which are engaged in promoting the economic well-being of the people. The Imperial Council of Agricultural Research is trying to make useful investigations in order to improve the agricultural economy of India. It has already discovered several scientific

methods of agriculture. It has enormously improved agricultural marketing by the introduction of grading and marking of agricultural commodities.

Of late, the Government has appointed an Economic Advisor, who has been entrusted with the task of recommending useful methods for the improvement of the economic life of the country.

The department of Scientific and Industrial Research is engaged in researches of industrial products.

The Government has been trying to push India's trade interests by appointing its trade representatives in various countries.

The Government has been always legislating for improving conditions of workers, and increasing their welfare.

Government and Post-war Plan

Recently the Government of India has put forward its plan of centralisation for the future control of industry. A transition from the pre-war policy of *laissez faire* to one of positive encouragement and promotion of the rapid industrialisation of India has been announced in a recent statement issued by the Government of India on their future industrial policy. The statement has been issued with the object of clearing up any uncertainty which may be impeding plans of development by private industry, but some of the conclusions are provisional, pending consultation with Governments of the Provinces and Indian States and the approval of the Legislature of certain of the measures proposed.

The increase of national wealth by the maximum utilisation of the country's resources in men and material, the better preparation of the country for Defence and the provision of a high and stable level of employment will be the fundamental objectives of industrialisation. It is axiomatic in Government's policy that the additional wealth should be equitably distributed. These objectives are proposed to be attained through positive measures, as for example, Government participation in the industrial fields where this is required in the public interest, various types of

assistance to industry, and the introduction of appropriate controls to regulate balanced and regionalised development. In giving effect to this policy, the necessity for a balance between the development of basic industries and that of consumption goods industries will be borne in mind, the development itself will be planned in co-operation with industry and every effort will be made to make the plan effective.

While the formulation of a tariff policy appropriate to post-war needs and conditions will take some time, machinery will be established without delay for the investigation of the claims for assistance or protection of industries which have been established or developed in wartime which have met essential wartime needs or helped to sustain the national economy during an exceptionally difficult period.

The Central Government propose to take over, in consultation with the Provinces and under the provisions which exist for this purpose in the Government of India Act, the development of certain important industries as a Central subject. Among the industries proposed to be so taken over are the iron and steel industry, the manufacture of prime movers, automobiles, tractors and aircratf, shipbuilding and marine engineering, the manufacture or electrical and heavy machinery and the machine tools, chemical textiles, cement, power alcohol and electric power industries.

An important point is an indication of the extent to which the State will take part in industrial enterprises. Ordnance factories, public utilities and railways, which are already very largely State-owned and State-operated, will continue to be so, while the bulk generation of electric power will also be a State concern, as far as practicable. Apart from these, basic industries of national importance, such as the aircraft, automobiles and tractors, chemicals, iron and steel, prime movers, machine tools and electrical machinery industries may be nationalised provided adequate private capital is not forthcoming and it is regarded as essential in the national interest to promote such industries. Government may also take over certain industries in which the tax element is much more predominant than the profit element,

and it is necessary and convenient for the State to take over the industry. An example of such action in the past is the manufacture of salt.

Other industries will be left to private enterprise under varying degrees of control, those which cater to the ordinary consumer demands and are subject to free competition being controlled only to the extent required to ensure fair conditions for labour and a stricter control being imposed over industries of a semi-monopolistic nature or which control scarce industrial resources.

The case of coal is proposed to be examined and dealt with separately.

Within the field considered open for State enterprise, the question whether the existing units which are privately owned should be taken over by the State will be examined on the merits of each case.

Certain industries of national importance such as ship-building and the manufacture of locomotives and boilers may be run by the State as well as by private capitalists. While normally a State enterprise will be managed by the Government itself, the possibility of management through private agency for limited periods, or operation through public corporations, has been indicated and Government's intention is to gain experience of management through such corporations.

The proposals for Government assistance to industry are comprehensive and far-reaching. Government have decided to discharge their responsibilities for laying the foundation of industrial progress, by the co-ordinated development of transport and electric power, an efficient survey of mineral resources, the promotion of scientific and industrial research and higher technical education. In addition, they propose to take part, either by making loans or by subscribing a share of the capital, in industrial undertakings important to the country's development, but for which adequate private capital may not be forthcoming. Industries receiving this type of assistance will naturally be subjected to a greater degree of control than others, *e.g.*, through Government representation on the Board of

Management. In special cases, industrial enterprises will be encouraged by the guarantee of a minimum dividend on capital, or an undertaking to meet revenue losses for a fixed number of years, subject to the Government having a voice in management and the fixation of ceilings for the return on capital.

Government's assistance will also extend to the giving of adequate financial support to research organizations set up by industrial associations representing organized industries and of grants to Universities for approved schemes of research. Such assistance will be in addition to direct Government organization of research as, for example, through the Council of Scientific and Industrial Research.

Apart from direct financial assistance, Government will, subject to reasonable safeguards as to quality and prices, continue to encourage Indian industry by buying its products in preference to others. It is also proposed to examine the tax system from time to time, to see that, while securing the ends of social justice and national budgetary interests, it does not tend to act adversely on development. Assistance will be afforded to industry in the procurement of the capital goods required by it and organizations will be set up in the U.K. and the United States for this purpose. Government's help will also be forthcoming in making the services of experts available to industry where their advice is particularly essential.

Undesirable economic, social and strategic consequences of the concentration of Industries in particular areas, often the result of fortuitous and haphazard growth, are proposed to be avoided. Government also consider that industry will have to be dispersed in many cases to enable India to reap the benefits of a widely spread industrial structure and its integration with agriculture. The statement points out that in an un-regulated industrial economy, there is likely to be a tendency for capitalists to go in for schemes which promise quick returns but would result in lopsided development. It is, therefore, proposed to overcome these difficulties by fixing targets and allocating them on a regional basis.

Government propose to take power by legislation to license the starting of new factories and the expansion of existing ones as, without these, planned industrial development will be impossible. With the object of securing that the powers proposed will be used in a manner that will command general public confidence and also of assuring Indian States that their legitimate desire for industrial development is not overlooked, a Board to advise the Central Government in the matter of granting licences for the industries which will be taken over under Central control is contemplated. Details of the personnel of the Board, its functions and other matters will be decided later.

A number of other controls have been mentioned in the Government's statement to secure balanced investment in industry, agriculture and the social services, to secure for industrial workers a fair wage, decent conditions of work and living and a reasonable security of tenure, to prevent excessive profits to private capital, to ensure the quality of industrial products in the interests of both internal and external markets and finally to ensure that an unhealthy concentration of assets in the hands of a few persons or of a special community does not take place.

The first objective involves the maintenance of control over capital issues. The second is proposed to be achieved through appropriate labour legislation. Enterprise which will be subject to free competition will not be discouraged by any undue restriction of profits but where such conditions do not exist and as a consequence excessive profits accrue, special steps will be taken as required. The quality of industrial products will be sought to be maintained through a system of standardization of products and administrative machinery to enforce standardization. The fifth is proposed to be secured by a judicious exercise of controls such as the capital issues control and the licensing machinery for the regionalisation of industry.

The Government of India are confident that it will be possible to evolve a machinery, in consultation with the Provinces and States, which will enable an agreed policy to be implemented in practice in a spirit of friendly co-operation on the part of all parties concerned, and propose, without delay, to

enter into discussions with Provinces and States in the light of the policy adumbrated in their statement.

Industrial Research in India

A regular drive for industrial research for post-war industrialisation is being launched by the Government of India, for which a few foreign experts have been appointed and the appointment of other foreign experts is now under consideration.

Under their industrial research scheme, the Government of India are shortly establishing a fuel and field research institute near Dhanbad, in Bengal, which will deal with various problems like research on coal production, conservation of coal, etc. Provision of one crore of rupees has already been made by the Government for the project.

Another factory is going to be started very soon by the Government of India near the Tata Chemicals Engineering Laboratory at Mithapur, in Bombay, for the purpose of carrying on industrial research, on semi-production basis, in pilot plants built for this purpose or on any chemical processes sponsored by private individuals and found suitable.

Government, it is stated, are also prepared to contribute equal amounts with other private donors for industrial research in the country.

Welfare Measures for Workers

The Indian Factories Act. (No. XXV of 1934) aims at regulating the health and safety of workers in a factory. It also regulates the number of working hours as well as the employment of women and children. Cleanliness, ventilation, cooling, water supply, lighting, etc. are insisted upon by the Act, which also prevents over-crowding, the use of dangerous machinery, etc. A maximum limit of working 55 hours in a week has been prescribed, and the daily working hours cannot exceed 10 hours.

The trade Dispute Act (No. VII of 1929) which has been made a permanent Act by the Act XII of 1934, aims at preventing and settling industrial disputes by mutual agreement amongst workers and employers. The Act provides for the

settlement of industrial disputes through the medium of either Court of Inquiry or the Conciliation Board. It has made any strike or lock-out illegal which is directed to other than furthering trade or industrial interests.

The mode of payment of wages to workers employed in a factory, railway, or in any industrial establishment has been regulated by the *Payment of Wages Act* (No. IV of 1936). The Act, however, does not apply to wages less than two hundred rupees a month.

Industrial Relations

Three Regional Labour Commissioners have been appointed by the Central Government at Bombay, Calcutta and Lahore for administering their new machinery which has been set up to deal with industrial relations in industries and undertakings in the "Central Sphere." The organisation is under the charge of Central Government's Chief Labour Commissioner at the headquarters.

Industries within the Central Sphere are all industrial establishments owned or controlled by the India Government, Federal Railways, mines and oil-fields and major ports.

As the Chief Commissioner's organisation will be responsible for conciliation in all matters concerning the 'Central Sphere', the existing machinery under the Conciliation Office and the Supervisor of Railway Labour ceases to have separate existence. Officers under the Chief Labour Commissioner are being invested with statutory powers of conciliation under the Trade Disputes Act, 1926. They are also being empowered as supervisors of Railway Labour and Inspectors under the Acts relating to payment of wages and employment of children in Federal Railways and major ports.

Workmen's Compensation Act

Under modern conditions of factory work, it is essential to protect workers against injuries caused in the course of employment. Formerly, the workers could claim damages from em-

ployers for such injuries according to common Law or Indian Fatal Accidents Act No. XIII of 1855, both of which tended to safeguard workers, provided negligence on the part of employer or his agent could be proved. But it was very difficult to do so, and hence the protection given to workers was only nominal. Hence the Workmen's Compensation Act (No. VIII of 1923) was passed in 1923, and further amended in 1933. This is an epoch-making Act in the industrial annals of India. This Act now makes it obligatory on all employers to pay compensation to workers or representatives of a deceased worker (worker as defined by the Act) in case of injury sustained out of and in the course of employment, as well as in certain cases of occupational diseases.

The Act defines clearly a "Workman", who comes within its scope. It always lays down the limits of liability of an employer. The Act makes a distinction between *Partial* and *Total Disablement*. *Partial Disablement* means two things, namely, either (*a*) disablement which is temporary, and reduces the earning capacity of a worker in an employment wherein he met the accident causing disablement. Or (*b*) permanent disablement which reduces the earning capacity of a worker in every occupation in which he was capable of being engaged at the time of the accident. The Schedule I of the Act cites a list of injuries causing partial permanent disablement, *e.g.* "loss of an arm, or leg above or at the elbow or knee respectively, loss of one's eye, etc." *Total Disablement* means disablement, temporary or permanent, rendering the worker unfit for any work in which he was capable of being engaged at the time of the accident. Permanent disablement results from permanent loss of both eyes, or from injuries specified in schedule 1 of the Act.

There are seventeen wage classes. The rate of compensation is based on "the highest wage of the class and not on the mean wage." Compensation for death is calculated at 30 months' wages; for permanent total disablement at 42 months' wages and 84 months' wages for adults and minors respectively. In case of death of an adult, the minimum compensation is Rs. 500.

The workmen's Compensation Act also provides for the appointment of Workmen's Compensation Act Commissioner to adjudicate claims under the Act, or the Court may do so.

The effects of the Act have been very beneficial. The employer is now cautious, avoids accidents, keeps the factory clean, and provides for adequate medical treatment for workers. Industrial life has been made more attractive, and workers of better types are being drawn to this kind of occupation.

We have already seen in Chapter XXXVIII how the employer can cover his liability under this Act by means of Accident Insurance Policies.

The practical working of the Act in these matters is strewn with difficulties. Very often the nature and extent of disablement, the question of occupational disease, the cause of the injury, etc. are hotly contested by both workers and employers. Though the Workmen's Compensation Act Commissioner is authorised to take medical opinions in such matters, the present system cannot be said to be satisfactory. The proposed Workmen's Compensation (Bengal Amendment) Bill just introduced in the Bengal Legislative Assembly aims at rectifying the above difficulties by appointing Medical Referees on British lines, and their opinions and decisions on controversial matters will be deemed final and conclusive.

The National Institute of Industrial Psychology

It is a very useful institution in England. It is run mainly by employers of labour. It generally undertakes investigations into working conditions of factories in order to discover improved methods. Investigators lead actually the life of those whose investigations they are concerned with during the period of their investigations. They usually examine (*a*) the quality, productive capacity and efficiency of plant, (*b*) recruitment and training of worker, (*c*) hours of work, and (*d*) elimination of wastage in a factory.

Taxation

The Government requires money to exist, and it usually obtains it from the public in various ways, of which taxes form

the most important ones. A tax is a compulsory contribution made to the Government, by any individual irrespective of the services rendered to him by the State. Taxes are of two kinds, namely, *Direct and Indirect*. A direct tax is collected from a person, who is also meant to bear its burden. An indirect tax is levied upon goods, and passed on to consumers in form of price. The income-tax is a direct tax, while import, export, excise duties are examples of indirect taxation. The direct tax has the advantage of low cost of collection, making the yield of the tax certain, and rendering evasion difficult. Since a direct tax falls straightway upon a person, it tends to make him a responsible citizen. It has the defect of obtaining equality and justice in assessment. Since it is very direct, people feel the pinch of it more than if they were made to pay in an unknown way as in case of indirect taxation.

Indirect taxation has the merit of easy collection, and people pay it without knowing about it. It is the only method of realising taxes from the poor class. It is convenient to pay, because it is collected in instalments. When indirect tax is levied upon a commodity of general consumption, a small tax can bring in a large revenue, *e.g.*, salt and sugar taxes. It is possible to obtain elasticity in indirect taxes. It can be adjusted according to needs of the Government. It has, nevertheless, certain defects. Its cost of collection is proportionately high. It is inequitable, because it cannot be adjusted to capacity to pay, and rich and poor are made to pay equally. Unscrupulous businessmen may take the advantage of an indirect tax by raising the prices of commodities much higher than justified by the tax. It may disturb trade and industry. In an Indirect tax, it is very often difficult to trace its full incidence.

Every tax system contains both direct as well as indirect taxes, and a proper balance between the two is a criterion of soundness.

Canons of Taxation

Adam Smith enunciated four principles of a tax, namely, (*a*) equality, (*b*) certainty, (*c*) convenience, and (*d*) economy.

Equality establishes the principle that every body should pay to the State according to his ability. A tax should be certain. Time of payment, manner of payment, and the amount to be paid should be definite and known. It should be convenient for the tax-payer to pay. The cost of collection should be kept at a minimum level.

Income-Tax

The Governments of all countries derive a large amount of revenue by means of income-tax. It may be proportional or progressive. In the former system of tax the rate of tax is uniform on all incomes ; every person pays in proportion to his income. But this system has been objected from the standpoint of equity and justice. It is argued that if everybody pays at the same rate the person with a small income is made to bear a heavier burden than the rich, because value of money is greater for the former. Hence, the sacrifice made by the former tends to be proportionately higher than that by the latter. So it has been pointed out that the tax should be paid not only according to income but the rate of tax should vary according to income as well. In that case it is a progressive tax.

Sales Tax

Recently Bengal, Madras, the Punjab and Bihar have imposed taxes on sales of goods within their respective areas. This is an indirect tax and the incidence is likely to fall on the consumers. It is a one-point tax in the sense that it is collected only once upon the sale of any commodity. The main object of the tax is to collect a large amount of revenue by imposing the least amount of burden on the consumers.

Bengal Sales Tax

Tax at the rate of 1 pice in the rupee (or over eight annas) was imposed upon the sale of goods in Bengal by the Bengal Finance (Sales Tax) Act of 1941. The rate of tax was increased to 2 pice from 1st May, 1944, and now it is 3 pice from 30th June, 1945. Every dealer whose gross turnover during the year imme-

diately preceding the commencement of this Act exceeded the taxable quantum shall be liable to pay tax under this Act on all sales effected. Every dealer shall be liable to pay tax under this Act with effect from three months after the commencement of the year immediately following that during which his gross turnover first exceeds the taxable quantum.

Every dealer who has become liable to pay tax under this Act shall continue to be so liable until the expiry of three consecutive years, during each of which his gross turnover has failed to exceed the taxable quantum and such further period after the date of such expiry as may be prescribed, and on the expiry of this latter period his liability to pay tax shall cease.

Every dealer whose liability to pay tax has ceased shall again be liable to pay tax under this Act with effect from three months after the commencement of the year immediately following that during which his gross turnover again exceeds the taxable quantum.

"Taxable quantum" means—

(a) in relation to any dealer who imports for sale any goods into Bengal, or himself manufactures or produces any goods for sale, 10,000 rupees ; or

(b) in relation to particular classes of dealers not falling within clause (a), such sum as may be prescribed ;

(c) in relation to any other dealer, 50,000 rupees.

No tax shall be payable under this Act on the sale of goods as specified from time to time.

No dealer shall, while being liable to pay tax under this Act, carry on business as a dealer unless he has been registered and possesses a registration certificate.

Any dealer whose gross turnover during a year exceeds 10,000 rupees may, notwithstanding that he may not be liable to pay tax, apply in the prescribed manner to the prescribed authority for registration under this Act.

Every dealer who has been registered upon application made shall for so long as his registration remains in force, be liable to pay tax under this Act .

CHAPTER XXXVI

FINANCING OF INDUSTRY AND TRADE

Land, Labour, Capital, and Organisation are the well-known factors that combine in creating economic value. Certain neo-schools of economic thought refuse, however, to recognise "capital" as an independent factor playing a part in the processes of production, distribution and consumption.

Any attempt to examine the merits of the contentions of these schools will lead us beyond the limits of our present study. It will be sufficient, however, for us to state that in the scheme of economy we are living and within the framework of economic doctrines on which the present study is based, "Capital' is an economic factor of vital significance.

'Capital' has been defined as the result of past abstinence from consumption. We venture to think, however, that this definition hardly explains the real character and implications of the part it takes in the creation of economic values. We would define capital as being a command over purchasing power. This purchasing power may, in many cases, arise from past abstinence. But there are cases where past abstinence from consumption on the part of either the lender or the enjoyer of capital does not appear to have any immediate or remote bearing on the acquisition of purchasing power. An illustration may serve to throw better light on the issue. We find that the Government of India, often, issues Treasury Bills in favour of the Reserve Bank of India which, as against these bills, places at the disposal of the Government such amounts of purchasing power as are allowable under the rules relating to the Note-issue. This acquisition does not, in our judgment, originate in any act of past abstinence on the part of the lender or the user of the capital.

Generally every economic activity requires the use of purchasing power before its due fulfilment.

The manufacturer is required to maintain and/or use (a)

factory, plant, machineries, tools, implements, and accessories, and (*b*) raw materials, labour, services of technicians, office establishment, services of specialised agencies for advertisement, communications, conveyance, etc.

All these necessitate a power to purchase their uses. Hence, arises the vital importance which attaches to the factor, Capital. The items classed (*a*) above may be referred to as "Fixed Capital" because their capacity for service is not exhausted by single uses in production and do not, therefore, call for frequent replacements. The items classed (*b*) may, on the other hand, be called 'Circulating Capital' because they are used up in the individual processes of production they are employed, and, thus necessitate continual replacements or renewals.

The operations of 'productions,' manufacturing or agricultural, are, in our present discussion summed up as 'Industry'. The operations of 'Distribution' and 'Consumption' are viewed as the problems of 'Trade'. In trade we generally acquire articles for selling them to intermediary traders or directly to consumers. It will be obvious, therefore, that whereas fixed capital forms a large part in Industrial resources, it is of reduced importance to a trader whose necessities for 'fixed Capital' relate chiefly to (*a*) office buildings, furniture, fittings and (*b*) preliminary and organisational expenses, and other miscellaneous expenditures whose benefits are spread over a number of years.

The Agencies which provide capital to Trade and Industry are said to constitute a money-market and the operations involved in providing capital are known as "Financing Trade and Industry". A money market is said to be well-organised when the various agencies and the classes of Trade and Industry for which these constituent elements respectively provide, bear distinguishable relationship to each other.

A historical investigation of the agencies which have provided capital to Trade and Industry in India shows that beginning from very early days down to the middle of the 18th Century, Industry and Trade operated within well-defined organisations known as trade-guilds, and obtained finances through regular and recognised channels, viz,—Sroffs,

Multanis, indigenous bankers, money-lenders, well-to-do Zeminders, Mahjans, and customers themselves, especially in the case of small craftsmen. These various agencies attached themselves to separate classes of Trade and Industry in such a manner that a regularly organised money-market in a modern sense but in the context of the circumstances then existing may be regarded as having been in existence during this period of the history of Indian economy.

With the advent of the East India Company the economy of the country underwent profound changes. Foreign trade was disorganised, local trade changed its past directions, political chaos and a general state of insecurity caused losses to shroffs and money-lenders. Changed methods and directions of industry and Trade and considerable diminution of the resources of the money-lenders threw the whole money-market out of gear. The Agency Houses in Calcutta and Bombay established under the patronage of the East India Company supplied the needs of foreign exchanges and financed industries working on western lines, such as, indigo, shipping, etc. An attempt was made about the year 1770 by the Agency Houses to establish Banks such as the Bank of Hindusthan under the auspices of Messrs. Alexander & co., and the Calcutta Bank sponsored by Messrs. Palmer & Co. Several Banks independent of the influence of the Agency Houses also came into existence, namely, the Bengal Bank in 1784, and the General Bank in1786. This state of affairs continued till in 1806 the East India Company found it imperative to establish a state-aided Presidency Bank in order to maintain its credit (which was suffering decline, as evidenced by heavy discount on Treasury Bills), and facilitate borrowings by the Government. This Bank originally known as "The Bank of Calcutta" was afterwards called "The Bank of Bengal" from the year 1809, when it was also granted a charter. Later, the two other Presidency Banks were established, *i.e.*, the Bank of Bombay in 1840, and the Bank of Madras in 1843. The East India Company being apprehensive of adverse competition from the Agency Houses opposed the establishment of other banks. But inspite of its opposition several banks with Head offices in

England were granted charters to operate in India in respect of the business of exchange, deposit, and remittance.

The collapse of the Agency Houses which were involved in the disastrous failures of the years 1829-32 as a result of ruinous speculative transactions, the disappearance of the opposition of the East India Company about the year 1853, and the introduction of the principle of limited liability of joint stock banks in the year 1860 brought to an end this second period in the history of Indian economy.

The third period which may still be regarded as continuing finds the establishment of the Allahabad Bank about the year 1870, of the Punjab National Bank, the Alliance Bank of Simla and the Oudh Commercial Bank during the years 1870 to 1900. Many important banks such as The Bank of India, The Bank of Baroda, The Central Bank of India, etc., came into a existence during the years 1906-1913. The Presidency Banks were amalgamated into one Bank called the Imperial Bank of India which is regulated under a special Act of the year 1920 as since amended in 1934. The Reserve Bank of India was inaugurated in the year 1935. The Banks having foreign Head Offices and operating in India mainly in the field of foreign exchanges have increased in number.

The present money market in India consists of the following elements, viz.,—the Reserve Bank of India, the Imperial Bank of India, the Foreign Exchange Banks, the Indian Joint Stock Banks, the Loan Companies and the Co-operative Societies, the Indigenous Banks, the Princes of native states, Money lenders, well-to-do individuals belonging to the middle classes, Traders, Zeminders, etc., Managing Agents, Shareholders, Debenture-holders, private depositors, special institutions like mortgage Companies, Trust Companies, Insurance Companies, etc., and lastly the state.

An analysis of these elements in the Indian Money market may now be attempted.

(1) The Reserve Bank of India. The preamble to the Act creating this Bank says that it was considered "expedient to constitute a Reserve Bank for India to regulate the issue of Bank

notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage". The Bank is not intended to undertake primary functions of the money market. It exercises powers of control and direction by (*a*) being the sole agency for issuing notes, (*b*) keeping Govt. cash balances and statutory cash reserves of Scheduled Banks, and (*c*) purchasing selling and rediscounting bills of exchange and promissory notes arising out of bonafide commercial or trade transactions and bearing two or more good signatures, one of which shall be that of a Scheduled Bank or bills and notes drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and bearing two or more good signatures one of which shall be that of a Scheduled Bank or a Provincial Co-operative Bank. The first named class of bills and notes should mature within 90 days of purchase or rediscount and the second named class within nine months from the date of purchase or rediscount.

The Bank is also permitted to make loans and advances repayable on demand or on the expiry of fixed periods not exceeding 90 days to Scheduled Banks and Provincial Co-operative Banks against the security of the Bills and notes above-described and promissory notes of a scheduled Bank or a Provincial Co-operative Bank being supported by documents of title to goods which have been transferred, assigned, or pledged to any such bank as security for a cash credit or overdraft granted for bonafide commercial or trade transactions or for the purpose of financing seasonal agricultural operations or the marketing of crops.

It will appear that in order that the Reserve Bank may make its influence beneficially felt in the matter of finance of trade and commerce we require a well-fashioned structure of money market to be in operation. The Reserve Bank can only help in correction and adjustment of temporary and short-term clogs in the flow of credit.

(*a*) The Imperial Bank of India. The amending Act of 1934 has freed this Bank from many restrictions which stood in the way of the Bank extending direct and active help to Trade

and Industry. It can now make advances "subject to such directions as may be issued by the Central Board" against debentures of companies with limited liability, and, "if so authorised by special directions of the Central Board" against goods which are hypothecated to the Bank as Security.

In course of investigations conducted by the Indian Central Banking Enquiry Committee many complaints were heard about alleged indifference being shown by the Imperial Bank and the Foreign Exchange Banks towards the development of Trade and Industry controlled and owned by Indians. These banks do not usually make advances against hypothecation of goods unless a collateral security in the shape of a guarantee by the Managing Agents or other approved party is forthcoming. The pledge of goods is generally insisted on. It was contended that in considering the acceptability of a guarantee these banks showed partiality towards European-controlled concerns.

A return dated 31st August, 1945, discloses the total funds of the Imperial Bank at more than Rs. 254 crores as against which advances have been made on loans, cash credits, bills discounted, etc., to an aggregate extent of only Rs., 60 crores.

(3) The Foreign Exchange Banks. They are now about 17 in number. Of these, five banks have 25 per cent. or more of their deposits in India and the others are merely agencies of large banking corporations doing a major portion of their business abroad. These banks generally confine themselves to fiannciug the foreign trade.

(4) The Indian Joint-stock Banks. Indian Joint Stock Banks enjoying the status of a Scheduled Bank and having a paid-up capital and reserves of Rs. 5 lakhs and over number 63 and their total paid-up capital and reserves amount to about Rs. 16 crores. 125 banks having paid up capital and reserves between Rs. 1 lakh and Rs. 5 lakhs command about Rs. 2½ crores in capital and reserves and Rs. 12 crores in deposits. 124 Banks having paid-up capital and reserves between Rs. 50,000 and Rs. 1 lakh command about Rs 90 lakhs in capital and reserves and about Rs. 4 cores in deposits. 332 banks with

capital and reserves of less than Rs. 50,000 command about Rs. 60 lakhs in capital and reserves and Rs. 3 crores in deposits.

According to the statement of the position of Scheduled Banks as on 31st August, 1945 the total deposits of Scheduled Banks amount to about Rs. 895 crores. On the basis of the figures as published in the Statistical Tables relating to Banks in India and Burma, for the year 1942, the Indian Joint-Stock Scheduled Banks may be expected to account for about 2/5th of the total deposits and thus the deposits controlled by them may amount to about Rs. 360 crores. The total loans and advances made by Scheduled Banks represent about 30½ per cent. of their deposit liabilities.

The Indian Joint-stock banks have often furnished working or circulating capital to Trade and Industry but there have been serious drawbacks due to (*a*) inexperience of management and lack of training of the staff of the banks, (*b*) the general practice of determining the policy of loans and advances not with reference to the merits of proposals but the selfish interests of the directors and managers, and (*c*) limited amounts of funds controlled by the Banks.

(5) The Loan Companies, the Co-operative Societies, and the local Indian Banks. They have often rendered substantial help to industry, especially the Tea Industry in Jalpaiguri and Assam but their power of effective service has been undermined by their (*a*) employing short-term deposits in long-term investments, (*b*) locking up funds in mortgages or real property, (*c*) allowing unsecured loans to be granted without attending to the question of sources and methods of repayment, (*d*) allowing loans to continue for unduly long terms, and (*e*) making no provision for building up Reserve Funds in adequate amounts and invested in sound and liquid securities.

(6) The Princes, Money-lenders, etc. They have employed considerable sums of money in loans and advances but they have no plan for examining the suitability of any business for its growth or expansion in India, nor any reliable means for judging the safety of a loan. They have often been guided by the attractiveness of the rates of interest.

(7) The Managing Agents. India has not developed the finance houses of the west like Bill-Brokers, Acceptance houses, Discount houses, Investment Banks, etc. These houses bring to Trade and Industry the financial help of Banks through the means of re-discount of bills, advances against collateral of shares underwritten, etc. They also help the investing public by providing guidance as to the concerns whose shares and debentures they may subscribe for.

The Managing Agents who are perhaps a legacy of the Agency Houses of the days of the East India Company have, to a considerable extent, helped in filling the gap created by the absence of the special institutions referred to above. But the Managing Agents have often embarked on too many concerns involving undue strain on their limited resources. They have been known to engage in speculation and over-trading, and projects designed to promote their personal interest. The inter employment of funds belonging to one company under a Managing Agent by other companies under the same Managing Agent produced many serious evils in the past.

(8) Shares, Debentures, and Deposits. The popular belief that the Indian public is shy in investing in shares and debentures does no longer stand scrutiny. In the years 1920-22 more than Rs. 107 crores were invested in the capital of the joint-stock companies in India. The evils that we suffer from are, however, attributable to the floatation of companies by persons without experience, sometimes with unscrupulous motives, and without properly calculating the needs for maximum amount of capital. The frequent collapse of companies have led to enormous losses of capital money, and has thereby shaken the confidence of the public. Well-organised Stock-Exchange markets and underwriting houses will help the proper examination of new ventures and thus ensure reasonable safety of share-moneys.

Debentures are not much in favour with the companies themselves because the mortgage-charge that often attaches to the debentures affects the powers of the companies to borrow

from the banks. The debentures are also said to involve greater costs by way of stamps and heavy discounts payable to brokers.

Deposits are a special feature of the cotton mills especially in Ahmedabad and Bombay. They have advantages over debentures in that they involve interest charges at lower rates, do not form any encumbrance on the property of the company, and are distributed over different months in a year and so their withdrawals do not constitute any serious threat. If less money is raised by shares and more by deposits then dividends may be declared at attractively high rates, but the danger of employment of short-term money in the meeting of minimum current needs of a business has always to be reckoned with and has, sometimes, occasioned trouble and anxiety to the mills in Bombay.

(9) Special institutions like Insurance Companies. In Japan and America the Insurance Companies employ a large portion of their funds in supplying long-term finance to Industry. In 1932-33, 89 Insurance Companies invested 82 million yen in mortgages of real property, 118 million in mortgages of factories, 220 million in loans on securities, 332 million in stocks, and 482 million in debentures. In England more than 25 per cent. of the funds of Insurance Companies are invested in the securities of the Railway Companies and industrial enterprises. In India the bulk of the funds are invested in Government or semi-Government securities. Industrial securities are generally avoided. Recent trends, however, indicate a change in the outlook of the companies. But the legislative insistence on investment of 55 per cent. of liabilities to policy-holders in Government and Government approved securities may not be calculated to help this change in outlook.

(10) The State. Until recently the doctrine of laissez-faire prevented the Governments from extending financial help to industries. The wars of 1914-18, however, brought this doctrine much into popular disfavour. Even England, once the great stronghold of the theory of laissez-faire, has now adopted an active policy of encouraging home industries.

The ideas regarding which industries deserve state help, at what stage the state help should begin, and whether this help should take the form of a guarantee of interests, dividends, principal moneys, or of active participation by subscribing to the shares and debentures of companies are still in the process of formation. The extent of the financial help by the state to Industries has not yet assumed any appreciable proportion.

The above outline of the various agencies for providing finances for industries in India shows that the inter-relationship between the various agencies and Trade and Industry as subsisting in the period before the advent of the East India Company has disappeared and the old principles for determining the soundness of or the necessity for new concerns vanished with the extinction of the old trade guilds or crafts guilds whose places have not yet been replaced by any modern finance houses.

In our helplessness and ignorance we frequently engage in controversies as to whether fixed capital or any portion thereof should be furnished by commercial banks, whether the whole of the circulating capital should come from banks, or the portion representing the minimum necessity should come from shares, whether shares or debentures should supply fixed capital and/or circulating capital, whether a policy of promoting Industrial Banks and Mortgage Banks should be pursued or the past experiences of a few ventures testify to their futility and whether banks should employ the bulk of their funds in industries.

It seems to us, however, that so long as no competent body appears in the field for undertaking expert evaluation of the possibilities of new industrial schemes, and so long as such bodies fail to establish their position in the confidence of the public, the much-needed inter-relationship between the various agencies and Trade and Industry cannot grow on well-marked lines. Once this drawback is removed a system will develop through natural evolution whereby the functions of the various agencies for finance in respect of fixed and circulating capital will be easily ascertained, because these functions cannot be

determined by reference to abstract theories. Practical operations of the various agencies in the course of normal evolution under expert and resourceful guidance will determine the respective functions of the different agencies. The impact of powerful theories now exercising the minds of people and the ultimate issue of the world-shaking wars may, for all we know, further strengthen the bias for state-intervention in Industrial Finance. No forecast about the future growth of the Indian Money Market can now be confidently made.

It is interesting to note here that certain war-time measures have been adopted regarding the capitalisation of limited companies in India. No new share capital can now be floated in India without the previous consent of the Government of India. This has been done mainly with a view to check the growth of mushroom companies in this country. The recent provision in the Excess Profits Tax Act that every company must contribute a part of their excess profits towards taxation which is returnable after the cessation of hostilities is likely to help the companies during the post-war period when a large sum of money will be required for re-construction and rationalisation of the entire industrial system.

The present system of financing the trade both internal and external has already been discussed in previous chapters. The internal trade is financed by various indigenous bankers, commercial banks and foreign exchange banks, while the foreign trade is financed by the exchange banks and the Imperial Bank of India. The financing of crops forms a large part of financing the internal trade of the country and this is usually done in three main stages, namely, (*a*) the indigenous bankers finance the movement of crops from the rural areas to the towns ; (*b*) the commercial banks supply the finance in moving the crops inside towns or from towns to the ports, and (*c*) finally the exchange banks finance the crop movements from the ports to the foreign countries. The crop movement in this country coincides with the season when the harvest is over and hence this branch of the internal trade tends to be seasonal in character.

Business Finance

It is absolutely necessary that every business must keep an accurate and up-to-date record of all its financial transactions so that it can determine at any time its exact financial position. It is now compulsory for every public limited company to maintain books of accounts and submit to shareholders periodical statements of its financial position, duly checked and reported upon by the company's authorised auditor. Every business house maintains staff for keeping the accounts and it may not be possible for them to prepare financial statements over a period and this is done by professional accounts. In some big business firms, it is found that the staff also keeps periodical statements. The first step is to prepare a Trial Balance, which merely denotes a process of proving the mathematical accuracy of the books. It works on the principle of double entry, for the trial is made by extracting a list of the debit balances in the books and another list of the credit balances. The totals of the two lists must be equal if the books have been correctly and accurately kept.

After the trial balance has been correctly completed, the accountant will proceed to close the books and to estimate the correct results of a given period under review—usually half year or a year. A Profit and Loss Account is drawn up, disclosing a list of the totals of the expenses on the debit side and on the credit side the totals of the receipts of income from various sources during the period under review.

Usually this account is sub-divided into two parts, the first is known as the Trading Account or Manufacturing Account and the second as the Profit and Loss Account. Below are given specimens :—

SONS & CO.

Trading Account

To	Rs.	As.	P.	Rs.	As.	P.
Stock in Trade as at 1st July, 1942	...	...	...	16,10,361	13	1
Goods Purchased ...	...	...	...	39,40,384	14	0
Salaries and Wages ...	3,63,980	11	1			
Managing Agents Fees ...	68,872	9	1			
Audit Fees	3,500	0	0			
Directors Fees	1,024	0	0			
Directors Commission ...	14,449	4	9			
Establishment Charges ...	2,94,371	10	3			
				7,46,198	3	2
Balance Carried to Profit and Loss Account ...				7,47,307	10	8
TOTAL Rs. ...				70,44,252	8	11

Profit & Loss Account

To	Rs.	As.	P.	Rs.	As.	P.
Depreciation on Capital Expenditure written off :—	...	...	...			
Buildings	11,000	0	0			
Plant and Machinery ...	16,588	5	6			
Furniture and Fittings ...	6,135	9	6			
Motor Vehicles ...	5,285	5	0			
Tools and Patterns ...	282	14	10			
				39,292	2	10
Reserve for Taxation :—						
Income and Super Taxes ...	...	...	...	1,32,000	0	0
Excess Profits Tax ...	...	...	...	5,07,000	0	0
Balance carried forward ...	...	...	...	1,48,035	8	9
TOTAL Rs. ...	...	...	...	8,26,327	11	7

(INDIA) LTD., CALCUTTA.

for the year ended 30th June, 1943.

By	Rs.	As.	P.	Rs.	As.	P.
Sales of Machinery, etc. ...	...	...	...	50,79,730	11	4
Stock in Trade as at 30th June, 1943	...	...	...	19,64,521	13	7
TOTAL Rs. ...	...	...	...	70,44,252	8	11

for the year ended 30th June, 1943.

By	Rs.	As.	P.	Rs.	As.	P.
Balance from Last Account	...	...	...	2,07,632	8	11
Less: Dividend paid at the rate of 1½% free of Income Tax	78,750	0	0			
Transfer to General Reserve Account	50,000	0	0	1,28,750	0	0
				78,882	8	11
Profit Transferred from Trading Account	...	...	...	7,47,307	10	8
Profit on Sales of Motor Vehicles	...	...	...	137	8	0
TOTAL Rs. ...	...	...		8,26,327	11	7

In the Trading Account, the Gross Profit denotes the excess of the amount realised by the sale of goods over the cost of manufacturing or purchasing them. Where the total cost of manufacture or purchase is in excess of the amounts realised by the sale of the goods, a Gross Loss is incurred, and this is shown on the credit side of the account and transferred to the debit side of the Profit and Loss Account. A Gross Profit is transferred to the credit side of the Profit and Loss Account where after deducting certain trade expenses and adding sundry revenue items, a Net Profit for the period is arrived at. It is possible that the total trade expenses exceed the gross profit or a gross loss may be enhanced by the loading of these expenses. In such instances a Net Loss is incurred and is exhibited on the credit side of the Profit and loss Account. Then to show how the disposable profit is collected or appropriated, this profit is transferred to a third account, known as an Appropriation Account, whose specimen is given below:—

The Appropriation Account is opened with the balance of the previous account brought in and is credited with the net profit of the current period. Then this account is debited with the various appropriations of profits which have been made during the period under review. Generally it is found that the Final Dividend is put on account of the previous period, while the Interim Dividend on account of the current period. Because the majority of companies authorise by their Articles of Association the directors to pay Interim Dividends, while the Final Dividend is generally required to be sanctioned and passed by the shareholders in a General Meeting. In such a meeting a Directors' Report is placed before the members, recommending how it is proposed to deal with the available balance.

The final stage in the preparation of accounts is the drawing up of a Balance Sheet, showing the financial position of a firm at the close of the period under review. Items of debit, *e.g.*, capital debentures, amounts owing to credits, and on bills payable, loans, revenues and the balance on Profit and Loss Account are put on the left hand side of the balance sheet under the usual heading of "Capital and Liabilities". On the right hand

Profit & Loss Appropriation Account for the year ended 31st October, 1944.

To Amount transferred to Employees' Bonus and Welfare Fund ...		12,000 0 0	By Balance as per last Balance Sheet	2,74,082 15 7
„ Divident for 1942/43 On Preference Shares @ 7% ...	6,328 0 0			
On Ordinary Shares @ 7½%	42,000 0 0	48,328 0 0		
„ Managing Agents' Commission for the year ended 31st Oct., 1943 ...		29,203 2 6		
„ Balance carried over ...		1,84,551 13 1		
		2,74,082 15 7		2,74,082 15 7
To Income-tax and Excess Profits Tax ...		1,85,142 1 0		
„ Amount transferred to Charity A/c. ...		497 3 6	By Balance brought over from 1942/43	1,84,551 13 1
„ Balance (subject to taxation and Managing Agents' Commission) carried to Balance Sheet		2,64,129 5 5	„ Net Profit for 1943/44 as per Profit & Loss A/c.	2,65,216 12 10
Rs. ...		4,49,768 9 11	Rs.	4,49,768 9 11

side the assets are placed and these include all the possessions of the concern and all debits owing to the business, together with the debit balance on Profit and Loss Account (if any).

The following is an example of a Balance Sheet :—

ZEMINDARY

Balance Sheet as at

CAPITAL AND LIABILITIES.	Rs. As. P.	
Capital—		
Authorised—		
1,00,000 Ordinary Shares of Rs. 100 each	1,00,00,000 0 0	
25,000 6% Cumulative Preference Shares of Rs. 100 each	25,00,000 0 0	
	1,25,00,000 0 0	
Issued and Subscribed—		
94,000 Ordinary Shares of Rs. 100 each	94,00,000 0 0	
8,762 6% Cumulative Preference Shares of Rs. 100 each	8,76,200 0 0	
(Redeemable at option of Company in giving six months notice)		1,02,76,200 0 0
(Particulars of Capital issued for Cash and pursuant to a contract without payment being received in Cash—as per Schedule attached)		
Premium on Shares	...	14,73,600 0 0
Reserve	...	11,50,000 0 0
Premium Lease Reserve ...	...	7,73,313 14 0
Rent Suspense (Provision for Bad and Doubtful Rents) :.. ...	...	14,97,472 11 4
Liabilities—		
For Expenses	4,49,089 11 4	
„ Other Finance	5,38,410 14 7	
		9,87,500 9 11
Unclaimed Dividends	...	41,334 0 0
Reserve for Doubtful Debts ...	...	25,000 0 0
Provision for Taxation ...	...	4,25,075 10 0
Employees Security Deposit ...	...	51,766 4 7
Profit and Loss Account ...	...	11,02,441 7 9
Total Rs. ...	...	1,78,03,704 9 7

AUDITORS' REPORT TO THE SHAREHOLDERS

We beg to report that we have audited the foregoing Balance Sheet of Messrs. . . . . . Zemindary Company, Ltd. as at 13th April, 1944, and Revenue and Profit and Loss Accounts for the year ended 13th April, 1944, in which have been incorporated the certified returns from the Company. We have obtained all the information and explanations we have required and in our opinion such Balance Sheet and Revenue and Profit and Loss Accounts are drawn up in conformity with the law,

COMPANY, LIMITED.

13th April, 1944.

PROPERTY AND ASSETS.	Rs. As. P.	Rs. As. P.
LAND, Zemindary and other rights, Buildings and Machinery &c.—(as per Schedule attached) ...	...	98,08,904 14 3
STORES	...	66,178 12 3
BOOK DEBTS—(Unsecured)		
Outstanding Rents considered good	36,44,740 12 4	
Miscellaneous considered good ...	1,301 4 10	
Chaitali Receipts from 14th to 30th April, 1944	5,09,951 14 3	
		41,55,993 15 5
DEPOSITS AND ADVANCES including Produce Stocks	...	2,01,125 3 6
LOANS—(Secured) Including interest accrued thereon	...	3,11,967 5 0
INVESTMENTS—		
In Government or Trust Securities at below cost	23,23,475 0 9	
In Debentures at below cost ...	45,000 0 0	
		23,68,475 0 9
(The market value of the Investments on 13-4-44 was approximately Rs. 24,15,235-15-0)		
INTEREST ACCRUED ON INVESTMENTS	...	6,582 6 0
MERCANTILE BANK OF INDIA, LTD. EMPLOYEES SECURITY DEPOSIT ...	...	51,766 4 7
CASH AND OTHER BALANCES—		
With Imperial Bank of India on Current Account ...	6,50,100 0 0	
,, Mofussil Managers ...	52,567 15 7	
,, Managing Agents— on Current Account ...	1,07,227 12 3	
on Dividend Account ...	22,815 0 0	
		8,32,710 11 10
TOTAL Rs. ...	...	1,78,03,704 9 7

and the Balance Sheet exhibits a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company. In our opinion books of account have been kept by the Company as required by law.

. . . . LEWES, } Auditors.
Chartered Accountants,
Registered Accountants,

For . . . . ZEMINDARY CO., LTD.
By Their Constituent Attorney,
. . . . C. N.

} Managing Agents.

L. SHAH,
A. DOSS,
A. W. ADAM, } Directors.

It is required by law that the auditor's report should be given in the above form. Below is given a specimen of a Revenue Account—

JUTE MILLS, LIMITED.

Dr. *Revenue Account for the Half-Year ended 30th September, 1943.* *Cr.*

	Rs.	As.	P.		Rs.	As.	P.
To Opening Stock	25,18,149	4	3	By Sales	50,79,245	8	3
,, Manufacturing Expenses ...	26,35,576	12	6	,, Sundry Receipts	9,171	5	0
,, Loss on Food Stuffs (provided for employees)	1,89,605	3	0	,, Interest	1,598	9	6
,, Salaries and Wages	6,29,101	7	9	,, Interest on Investment	2,800	0	0
,, Establishment Charges	28,277	2	3	,, Closing Stock	20,53,031	6	0
,, A. R. P. Expenditure	17,618	2	6				
,, Gunny Brokerage	34,602	8	9				
,, Directors' Fees	150	0	0				
,, Managing Agents' Commission ...	1,01,584	14	6				
,, Income-Tax on Interest on Investment	729	2	0				
,, Balance to Profit & Loss Account ...	9,90,452	3	3				
Total Rs. ...	71,45,846	12	9	Total Rs. ...	71,45,846	12	9

Functions of Auditors

The Indian Companies Act lays down that the accounts of every public limited company must be audited every year. So certain professional accountants must be elected by shareholders of a company every year as their auditors, who are the agents of the shareholders. The duty of auditors is to check the accuracy of the books of accounts of the company and to report thereon to the shareholders. The main purpose of an audit is detection and to check frauds and mistakes. The auditor's report must be attached to the balance sheet in the form given in the preceding example (this form is prescribed by law). If the auditors detect any irregularity which the directors are unable to rectify, it becomes the duty of the auditors to refer to it in their report.

Dividend Policy

When a company makes profits, it becomes a pretty difficult problem of disposing of this surplus. Shareholders as a rule prefer high dividends, while from the standpoint of the company accumulation of reserves is very desirable in the ultimate interests of the company. High dividends may at times lead to undue speculation in shares resulting in high share values, which may react unfavourably, upon the company. These dividend problems become more complex when there are different types of shareholders. The prior shareholders will favour conservative dividend policy, which strengthens the assets of the company and as such the security behind their shares. The ordinary shareholders would like to get maximum dividends if available, because they know that reserves accumulated will ultimately go to the prior shareholders in case the company goes into liquidation. Although profits may be large, the cash position of the company may be poor and in such cases instead of paying high dividends by making a new issue, the directors generally prefer to recommend to issue bonus shares to shareholders by way of dividend. This policy may or may not be good. The issue of bonus shares results in a permanent increase of capital and if this is not required it will lead to "watering"

the capital. On the other hand if large profits have been earned but the cash position is poor then the issue of bonus shares as a substitute measure is obviously preferable to paying high dividends and making a new issue. Such a step is welcomed by preference shareholders who would like to capitalise the profits of the company and the ordinary shareholders are also likely to benefit from a saving of income-tax and they may also sell these bonus shares at a premium. It is also sometimes the practice of directors to creat secret reserves to avoid distribution of large dividends. Reserves ordinarily shown in a balance sheet refer to past profits, but a company may build up secret reserves by either understating profits and assets or overstating their difficulties. The object of such secret reserves is to provide a safeguard against which future losses may be written off without knowledge of the general public. This may also avoid the reduction of dividends. The system may, however, be abused. In the first place, it is a moot point whether the shareholders who are the proprietors of a company should really be kept in the dark. Then these secret reserves may not disclose the actual losses and thereby prevent the scope for reorganisation and rationalisation. They may not reveal the actual profits and prejudice the shareholders for disposing of their stocks at a price lower than what they are really worth. The creation of secret reserves may lead to *found* by tempting directors to inflate the Profit and Loss Account and attract people to put money into the business. It becomes fundamentally debatable that since a balance sheet is meant to show the real financial position of a business, any secret reserves are likely to defeat this end.

Necessity of Statistics in Business

Statistics have been popularly defined as "numerical statements of facts in any department of enquiry, placed in relation to one another". They are generally in the form of data, consiting of figures over a certain period. It is, therefore, essential that some standard is adopted as a basis of comparison, and in a business this standard is generally the corresponding data of the

previous year, half-year, quarter, month or week. The collection and analysis of figures will help a businessman to grasp many of the problems accurately and find solutions thereof. As we have already discussed in previous chapters that there are Trade Cycles, any businessman will be able to anticipate and forecast correctly the business trends and take suitable measures accordingly.

Questions

1. What are the different methods of "placing" shares of joint-stock companies in India? Discuss the relative advantages and disadvantages of these methods. State your opinion on the desirability of having industrial banks for the purpose. (M.A. Com., Cal., 1943.)
2. What are the different institutions available for the financing of Indian industries?
3. Industries require both short-term and long-term loans. Are the banks as existing in this country adequate to meet the needs?
4. Examine the nature of financial facilities available for Indian Industries: What modifications would you propose in the existing financial system to suit their requirements? (M.A. Com. Cal., 1942.)
5. Describe the principal methods of raising capital for industries in India. Are these methods adequate and sound? (M.A. Com. Cal., 1942.)
6. Can you state in how many ways the financial resources required for (*a*) establishing an industry and (*b*) running the same can be secured? What are the usual sources for such financial supply available in Bengal? (B. Com. Cal., 1946.)

APPENDIX I

COMMERCIAL TERMS

Alloys

They denote bodies which result from the union of two or more metals, the union being brought about under high temperature

Anthracite

It means the very best type of coal, which is almost smokeless. It is commonly used for steam fuel.

Arbitrator

This means a person who is called upon to decide a dispute by agreement or arbitration.

Average Bond

It means a document signed by all contributors to a general average adjustment. It entitles them to take delivery of their goods after undertaking to pay their share of general average contribution as soon as the amount is ascertained.

Abandonment

It means that the insured in a marine insurance gives up all rights in the wreckage in exchange of a compensation.

Ad Referendum

When a contract is made "Ad Referendum", it means that the contract is complete except in minor details.

Adjournment

It means postponing a meeting to some later date.

Affidavit

It means a written statement before a person who is authorised to administer oaths.

After Date

It is used on a bill of exchange, indicating that the maturity of the bill will be calculated at a fixed period after the date on the bill.

After Sight

It means that the maturity of a bill of exchange is to be calculated at a fixed period after its presentation to the drawee.

Agenda

It denotes the programme of business to be performed in a meeting.

Antedate

This signifies to date a document prior to the day on which it is actually drawn up.

Appraiser

Refers to a person who is authorised to make a valuation of goods.

Adjudication Order

It refers to an order by which any person is adjudged an insolvent, and his property is vested in a trustee for the benefit of his creditors.

Allonge

A slip attached to a bill of exchange to provide place for further endorsements.

Agio

Agio is the difference between the real and nominal value of a currency, *e.g.*, if a paper currency is depreciated then agio refers to the premium at which gold or silver rupee (in India) stands in relation to paper money.

Accommodation Bill

Denotes a bill of exchange, accepted by an acceptor to accommodate one of the parties thereof.

Arbitrage

It denotes an operation of buying a security in one market and selling it at the same time in another, and, therefore, making profits out of the price differences.

Amortisation

It refers to a reduction of stock by setting aside profits or by building up a sinking fund.

Assignment

It refers to a transfer of title or right in a property.

Average

When a part of the cargo is thrown overboard to save a vessel the loss is general and is borne by all interested in the safety of the vessel. Such a loss is termed as "average".

Ad Valorem

When Customs duties are chargeable according to value of goods.

Backwardation

Money paid by a "bear" operator on the stock exchange for postponing settlement.

Bonded Warehouse

A store house approved of by the Customs authorities for stocking dutiable goods, and no duty is payable until they are actually removed.

Bottomry Bond

It is the mortgage bond executed by the captain of a vessel pledging vessel, freight and cargo for raising loan to carry out necessary repairs of the vessel in the course of its voyage.

Bourse

Refers to a Continental Money Market or Stock Exchange.

Barratry

A wrongful act done by the captain or crew of a vessel to affect interests of the owner of a vessel.

Bond

It means a sealed promise of any kind.

Brick Tea

It refers to tea which is compressed into blocks or slabs.

Bullion

It means gold or silver in bars or in the mass as distinct from coined metals.

Back A Bill

To "back" a Bill means that some body lends his name to it by endorsing it.

Back Freight

It denotes repayment of freight from shipowner for non-delivery of goods owing to his fault.

Bailment

It means delivery of goods from one person to another on condition that they will be returned or dealt with according to advice under certain conditions.

Bank Note

It means a promissory note issued by a Bank payable to bearer on demand.

Bank Return

It refers to the weekly statement issued by the Reserve Bank showing assets and liabilities of both Issue and Banking Departments.

Cheap Money

It refers to a period when money conditions are easy and loans are available at cheap rates of interest.

Cheque Rate

It refers to the price at which a cheque or sight draft on a foreign country may be bought.

Call

It refers to a notice issued by a company requesting shareholders to pay money which remains unpaid on their shares.

Call Money

It denotes money lent by banks and can be demanded for repayment any time without notice.

Called Bonds

They mean Bonds called in for redemption, and after this no more interest accrues on them.

Capitalised Profits

They denote profits which are capitalised by the issue of bonus shares.

Cesser Clause

It is a clause sometimes found in a Charter Party meaning that the Charterer's liability for freight ceases after the goods are taken on board.

Constructive Delivery

It means some action which reveals a present intention to delivery.

Copyright

This means that the author or composer reserves all right to print and publish works, and no one is allowed to do so without his permission.

Currency of a Bill

It refers to the period between the issue and maturity of a bill.

Charges Forward

This means that the purchaser is to pay charges for carriage on delivery of goods.

Charging Order

It refers to an order of the Court charging shares in a company with the payment decreed by the Court in a judgment.

Charter

It denotes rights granted by the Crown.

Chose in Action

It refers to that which may be recovered by action at law.

Circular Cheque

It means special letters of credit issued by banks to customers who are going to travel round.

Circular Note

It also means letters of credit issued by banks to travellers in round figures.

Clean Credit

It denotes a letter of credit which promises acceptance of a bill of exchange without requiring any documents.

Compte Rendu

It means account rendered.

Consols

Refers to that part of National Debt of Great Britain, which is secured on the Consolidated Fund of the United Kingdom.

Contraband

Goods, whose export or import is either prohibited or allowed only on payment of a duty.

Cum Dividend

Used in case of a share, which means that the buyer of the share is entitled to the dividend, declared on it at the time of purchase.

Credit Note

It is sent by a seller of goods to the buyers to correct an overcharge in the original invoice, or when goods are returned to the seller.

Debit Note

It is converse of a credit note and is sent to the buyer by a seller, where an invoice is sent out and it is later found out that the invoice is wrongly cast, or goods sent have been under-invoiced. The matter is corrected by sending the buyer a debit note.

Dead Freight

Where the charterer of a vessel fails to utilise the full load chartered, the deficiency is referred to as dead weight.

De Facto

It means as a matter of fact.

De Jure

This denotes as a matter of law.

Dead Weight

This refers to bottom cargo which is placed on board a vessel for ensuing stability. Freight on such cargo is determined by weight.

Dear Money

It means that the rate of interest for money is high.

Dies Non

It means a non-business day.

Documentary Credit

It denotes a letter of credit which requires documents to be attached to a bill for which it is meant to be used.

Deficiency Bills

They are created when Government's balance with the Bank of England is insufficient to meet the quarterly payments, and they represent loans to Government by the Bank, generally for 3 months.

Domicile

It means the permanent home or address of an individual.

Dormant Partner

It means the same as a sleeping partner who takes no active part in a business.

Effects

They refer to money, goods, and valuable possession of an individual.

Effects Not Cleared

A bank usually writes this in connection with a cheque which is dishonoured, saying that the remittances against which the cheque is drawn have not yet reached the bank.

Escrow

It means a deed delivered by the maker on certain conditions.

Ex

It means "Out of".

w/**Embargo**

Refers to a Government Order under which a ship or cargo is detained in or excluded from a port.

Enfaced Paper

Indian Government promissory notes bearing a notification that the interest may be collected in London at the Bank of England.

Equitable Mortgage

Mere deposit of title-deeds with or without a note of the transaction, as security for a temporary loan.

First Class Paper

Treasury Bills and Bills, bearing names of banks or financial institutions of unimpeachable faith.

Funded Debt

It means the permanent loan of the British Government. Though no fixed date of redemption is given, it may be redeemed when the Government wants to do so.

Face Value

It means the nominal value, *i.e.*, the value as it appears on face of it.

Floaters

They refer to first-class bills and securities against which call money is advanced.

Floating Capital

It means capital invested in realisable securities, *e.g.*, stock exchange securities.

Floating Charge

It means a kind of mortgage charging properties which can be used in the ordinary course of business freely.

Floating Debt

It means a temporary loan to be repaid quickly.

Floatation

It means the formation of a company.

Folio

It denotes a page or sheet carrying both sides of account in book-keeping.

For Money

It refers to transactions particularly on stock exchanges, which are meant to be closed immediately.

Firm Offer

An offer made finally after some negotiations and is expected to be unconditionally accepted.

Fixed Charges

Rent, interest, salary, etc., payable by a business, whether it is doing any actual business or not.

Free Alongside Ship

Goods to be delivered alongside a ship, named by the buyer, who will bear the cost of loading them on the ship.

Freight Note

A statement given by the ship-owner to the shipper, stating the freight due on the goods shipped.

Freight Release

An endorsement by the master of a vessel on a bill of lading, denoting that freight on goods is paid.

Garbling

It means the act of separating damaged goods from those of good ones.

Garnishee Order

An order of a court advising a person holding goods of judgment debtor to retain them for the benefit of judgment creditor.

General Lien

It denotes the right of a bank to retain the property of its debtor until the repayment of a loan.

Gilt-edged Securities

First class securities which are very safe and assured, *e.g.*, Government securities.

Glut

It means the over-supply of any commodity.

Godown

This denotes a warehouse.

Gold Bonds

This is used in reference to American Railway Bonds; they mean bonds payable in gold coin.

Guinea-Pig Director

It means a Director who is so appointed because of his name; he is of no use otherwise.

Hall-Mark

It refers to a mark indicating the purity of the goods, and the date of marking.

Hammered

When any member of a stock exchange fails to honour his obligations, he is said to be "hammered".

Hypothecation

Pledging or mortgaging a property.

Imprest System

It is a method of keeping petty cash, by which the petty cashier is advanced a round sum, and at intervals renders an account to the chief cashier for any sum reimbursed from his petty cash, and the original round sum is again restored by additional payments by the chief cashier.

In Bond

Refers to goods on which no duty is paid, and which are stored in a bonded warehouse.

Invoice

An invoice is a written statement sent by a seller to the buyer of goods, stating the quantity, quality, price and nature of goods.

Sometimes, a merchant sends goods to an agent, who is authorised to sell them in behalf of the merchant and then to send an account of sales to the merchant. In such cases, the merchant sends a specialised form of invoice known as a *Pro Forma Invoice* to the agent stating the quantity, quality, description, etc., of goods, while price particulars are only mere indications as to what prices the agent is expected to sell. The actual prices at which the agent sells may be lower or higher than pro forma invoice prices.

Issue Par

It denotes the price at which shares are issued.

Inventory

This means a catalogue of articles.

Impost

It means a tax.

In Transitu

This denotes in course of transit.

Indenture

It means a deed executed by two or more parties.

Inflation

It denotes an expansion of currency beyond needs, and without sufficient backing of usual securities.

Ingot

It means the bar of a precious metal.

Injunction

This means an Order of a Court forbidding a particular act.

Interest Policy

It refers to a marine insurance policy which mentions the insurable interest.

Interim Dividend

It means a dividend declared by a company as an instalment out of annual profits, before the final accounts are to hand.

Jetsam

This refers to commodities thrown overboard in peril.

Journal

It means the main subsidiary book used in book-keeping.

Judgment Debtor

This means a person who is under Court's order to repay a debt.

Jerquer

A Customs Official who examines all imports to find out if any goods are smuggled in or not.

Kite-Flying

Dealing in accommodation bills to raise money, the bills are known as "Kites".

Lien

The right of a creditor of holding another man's property till the latter fulfils his obligations to the former.

Lagan

It refers to commodities which are jettisoned but are marked with a buoy to expedite recovery.

Ledger

It means a book in book-keeping wherein are recorded debits and credits of all accounts.

Letter of Marque

This refers to Government order empowering merchants to attack enemies during a period of war.

Letter of Renunciation

This refers to a letter by which a person entitled to take up new shares may transfer this right to another.

Letters Patent

This denotes a document issued by the Government conferring on the addressee a patent or other privilege.

Lighterage

This refers to the charge for the carriage of goods from wharf to ship.

Long

When a man buys more than what he sells, Americans say that he has gone "long".

Making-up Price

The price fixed by the stock exchange authorities for the carrying over of bargains.

Manifest

A declaration made before Customs Officials regarding the cargo of a vessel.

Moratorium

An extension of time allowed during abnormal conditions by a Government for the payment of debts, especially in the case of banks.

Marginal Letters

These mean letters of credit with blank bills attached to the margin of letters. Foreign agents sign them at the time of taking advances.

Mungo

It means the waste product of a woollen mill.

Margin

It refers to the excess value of a security over the advance made by a bank.

Maritime Lien

This denotes the right of using a commodity to satisfy a debt arising out of a maritime venture.

Marked Cheque

This refers to a cheque which has been marked by a drawee bank as good for payment.

Mint

This refers to the place where coins of the currency system are made.

Misfeasance

It means wrong-doing.

Naturalisation

It means the granting of all rights and privileges of a national to an alien.

Notary Public

This refers to an official authorised to sign deeds.

Novation

This means introducing new parties to a contract already existing among some.

Nursing An Account

This means that a bank gives special accommodation to a customer to retain his account.

Omnium

This refers to the aggregate value of different securities forming part of one loan.

Open Account

This means an Account which has an outstanding balance.

Pedlar

It is defined by the Pedlars Act 1871 as "any banker, pedlar, petty chapman, tinker, caster of metals, mender of

chairs, or other person who, without any horse or other beast bearing or drawing burden, travels and trades on foot and goes from town to town or to other men's houses, carrying to sell or exposing for sale any goods, wares, or merchandise. . . or selling or offering for sale his skill in handicraft."

Power of Attorney

Refers to a document which authorises a person to act for another in matters mentioned in the document.

Par

It refers to a state of equality.

Parquet

Refers to the group of official brokers on the Paris Bourse.

Pawnbroker

A person authorised to lend cash on the security of goods pledged with him.

Per Diem

Per day.

Per Procurationem

Under the authority of.

Petite Bourse

This refers to the market held in the Paris Bourse during evenings.

Petty Cash

Money meant for small payments.

Pig on Pork

This means that bills are drawn by one branch of a firm on another or Head Office.

Pilferage

Theft of commodities in transit.

Plural Voting Shares

Shares carrying more than one vote are so called.

Post Obit Bond

This means a document which binds one person to repay loan with interest upon the death of another.

Post Restante

An arrangement with a Post Office which keeps to itself all letters until the addressee calls for them.

Poundage

A charge on postal orders per £1.

Prime Entry

A provisional entry at the Customs House before goods are landed.

Probate

An official copy of the will of a deceased person certified by High Court.

Proxy

The authority given by a person to another who can act on behalf of the former in certain matters per authority letter

Pari Passu

In equal proportions.

Per Contra

As on the other side.

Pro Rata

In Proportion.

Pyx

A box containing coins made at the Mint.

Quarantine

Refers to a period during which no intercourse is allowed between shore and a ship which is suspected of infection.

Quantum Meruit

"As much as he deserves."

Quarter Days

The last days of each of the quarters in a year when interest or rent payment becomes due.

Quid Pro Quo

Something in exchange or return.

Rig

Refers to secret operations of a Bull operator to force prices of securities up.

Rack Rent

The highest rent which a land can bear.

Racking

It means the drawing off or combining wines or spirits from casks at the Customs House.

Rags

Remnants of discarded woollen or cotton goods.

Reciprocity

It means that two countries mutually agree to give concession to each other in matters of customs duties.

Rente

It means National Debt in the Continent.

Reversion

Right to property acquired on death of a person or on the expiry of a lease.

Rummaging

This refers to the search of a vessel undertaken by Customs Officials to discover any concealed goods which are dutiable or prohibited.

Rebate

An allowance made off the price of a thing.

Receiver

This means a person appointed by another or by Court to take charge of a property.

Re-draft

This denotes a bill drawn on a party who is liable on a dishonoured bill.

Rest

Undivided profits of the Bank of England.

Retire A Bill

To pay a bill on maturity.

Rider

It means a subsequent addition.

Ring

It refers to a group of persons purporting to raise prices by controlling supply.

Royalty

It refers to payment made to an owner of mines for using his properties or to another for trading in his book.

Seigniorage

Refers to profits made by a Government on the manufacture of token coins or money.

Ship's Protest

It is a declaration made by the master of a vessel, on oath, stating the circumstances under which any damage to ship or cargo has happened.

Slinging

It is a shipping term used in the United Kingdom to denote charges for putting chains round the goods as they lie in craft

alongside the vessel. This makes it easy to load them on board the ship.

Sans Frais

It means "without expense".

Scrip

It means a certificate acknowledging payment of application and allotment money.

Second Via

It denotes a document sent by next mail in case the first should be missing.

Sequestration

Means bankruptcy.

Set-off

It means counter-claim.

Shipping Advice

It refers to an advice sent by a railway company intimating that certain goods have been sent for shipment.

Shipping Bill

It refers to a Customs document entitling a person to a drawback.

Shipping Note

A request to the Dock Superintendent to receive and ship goods.

Ship's Husband

It refers to a Manager of a British ship.

Ship's Protest

It denotes a declaration which the captain of a vessel makes and signs under oath ; it states the circumstances which caused damage to cargo or vessel.

Short

American term signifying a person who sells in anticipation of a fall in price.

Short Interest

Refers to the repayment of premium which has been paid in over-insuring goods.

Short Shipment

Goods left behind out of a consignment.

Short Cut

This means goods which could not be taken on board a vessel.

Sola Bill

This refers to a bill of exchange which is drawn in one part only as distinct from bills drawn in set.

Stevedore

One who helps in the loading and unloading of a vessel.

Stop

This means a notice to a Bank requesting not to pay on a note or anything else on presentation.

Stoppage on Transitu

This means the right of a seller to stop the goods in transit from reaching a buyer who has not paid for the goods, and has been reported to be insolvent.

Stowage

Packing of cargo on board a ship.

Stranding

Means that a ship has touched the bottom and is held up for some time.

Subpoena

Order by the Court asking a person to attend under a penalty in case he fails to do so.

Supra Protest

Means under protest.

Sine Die

Indefinitely or without a day.

Slump

Refers to a heavy drop in prices.

Stale Cheque

Any cheque in circulation for more than six months or so.

Tale Quale

It is used in contracts of sale of goods to arrive. It means that goods were to sample when shipped, but the buyer undertakes all other risks of damage to goods during transit.

Talon

Attached to a bearer bond, and is used for applying for further interest coupons when the previous issues are all used.

Tied Shop

It refers to a type of shop which is tied to a particular interest in the sense that though the shop-keeper is the owner of the shop, he is bound to stock and sell certain specified goods of a particular interest, and enhance their sales in preference to that of other goods. This is usually found when a shop takes up the sole selling agency of any particular commodity.

Truck Acts

Acts making illegal payment of wages in kind.

Trustee

One who holds property for the benefit of another.

Turnover

Total business done by a firm over a given period.

Take Up

To pay a bill at due date.

Towage

Charge by the owner of a tow-boat for handling a vessel.

Trade-Mark

A registered name, mark or brand to distinguish anything from others.

Ullage

Means the quality which the contents of a bottle lack to make it full.

Ultra Vires

Beyond the powers of.

Usance

Period of currency of a bill drawn between two countries.

Underwriting

Means guaranteeing the sale of shares. Those who became insurers by signing are "underwriters" also.

Unified Stock

Refers to several loans at varying rates of interest amalgamated into one at a uniform and fixed rate of interest.

Waiver

The action of a person who gives up certain of his rights in a contract.

Watering Stock

This denotes creation of new capital in order to make good some depreciation in assets representing previous capital. It is not meant for any genuine extension of business or operations. It very often means increase of nominal capital without any cash receipts. It is created out of fictitious profits.

Without Prejudice

This is a phrase used by a party to a dispute when he makes an offer intending to bind him only in case of a satisfactory settlement.

Writing Off or Down

To reduce the value of an asset.

Writing Up

This is an operation in accounting whereby the book-value of an asset is increased to show an increase in its real value.

Window-Dressing

A term commonly used to indicate that banks are calling in loans to be repaid in order to make their cash balances appear large in periodical statements.

Wager Policy

One in which the insured has no insurable interest in the object insured.

York-Antwerp Rules

The marine insurance underwriters framed certain rules by a conference at Antwerp for adjustment of marine losses.

Zollverein

The union of the various German States to enable them to act as one in their commercial and trade dealings.

APPENDIX II

COMMERCIAL ABBREVIATIONS

@	At.
A/c	Account.
A/C	Account Current.
A/d	After Date.
A/D	Acknowledgement Due.
Advt.	Advertisement.
Ad. Val.	Ad Valorem.
A/o	Account of.
App.	Appendix.
Approx.	Approximate.
A/S	Account Sales.
Asst.	Assistant.
Av.	Average.
Bal.	Balance.
B/C	Bill for Collection.
B. C. R.	Bill Collection Rate.
B/E	Bill of Exchange.
B/L	Bill of Lading.
B. O.	Branch Office.
B/O	Brought Over.
B/P	Bill Payable.
B/R	Bill Receivable.
B. S.	Balance Sheet.
Bx.	Box.
C. A.	Chartered Accountant.
C/A	Credit Account.
C/a	Current Account.
C. B.	Cash Book.
C/C	Cash Credit.
C. D.	Cum (with) Dividend.
c/d	Carried down.
C. & F.	Cost and Freight.

C. f.	Cash and Freight.
C/f	Carried Forward.
C. I. F.	Cost, Insurance and Freight.
c. f. i.	Cost, Freight and Insurance.
chq.	Cheque.
C. i. f. & c.	Cost, insurance, freight and commission.
C. i. f. & i.	Cost, Insurance, Freight and Interest.
C. N.	Credit Note.
C/o.	Care of.
Co.	Company.
C. O. D.	Cash On Delivery.
Com.	Commission.
Cum. D.	With dividend.
C. W. O.	Cash With Order.
Cwt.	Hundredweight.
D/A.	Deposit Account.
D/a.	Days After Acceptance.
D/A.	Document Against Acceptance.
D/B.	Day Book.
D/D.	Demand Draft.
Def.	Deferred.
Del. Cred.	Del Credere.
Dept.	Department.
D/F.	Dead Freight.
Diff.	Difference.
Dft.	Draft.
Dis.	Discount.
Div.	Dividend.
D. L. O.	Dead Letter Office.
D/N.	Debit Note.
D/O.	Delivery Order.
Do.	Ditto (The Same).
Doz.	Dozen.
D/P.	Documents against Payment.
Dr.	Debtor.
D/R.	Deposit Receipt.
d. w.	Delivery.

e.g.	For Example.
E/I.	Endorsement Irregular.
E. & O. E.	Errors and Omissions Excepted.
Encl.	Enclosure.
Ent.	Entered.
Etc.	Et. cetera (and other things).
Ex.	Exchange.
Ex. D.	Ex (Without) Dividend.
Ex. Int.	Ex Interest.
F. A. A.	Free of All Average.
F. A. S.	Free Alongside Ship.
F.C.C. or F.C. & S.	Free of Capture and Seizure.
F. C. S.	Free of Capture.
F. D.	Free Docks.
F. G. A.	Foreign General Average.
F. O. B.	Free On Board.
f. o. c.	Free of Charge.
F. O. R.	Free on Rail.
F. P. A.	Free of Particular Average.
Frt.	Freight.
ft.	Foot.
Fwd.	Forward.
G. A.	General Average.
G. M. T.	Greenwich Mean Time.
Govt.	Government.
G. P. O.	General Post Office.
Gr. Wt.	Gross Weight.
hf.	Half.
H. M. C.	His Majesty's Customs.
H. M. S.	His Majesty's Service.
H. O.	Head Office.
H. P.	Horse Power.
I. B.	Invoice Book.
Ib., Ibid	Ibidem (In the same place).
I. B. I.	Invoice Book Inwards.

Id.	Idem (The same).
i.e.	Id est (That is).
I/I	Endorsement Irregular.
Inter alia	Among other things.
Ins. or Ince.	Insurance.
Inst.	Instant.
Int.	Interest.
Inv.	Invoice.
I O. U.	I Owe You.
Irr.	Irredeemable.
I. T.	Income Tax.
J/A	Joint Account.
Jrr or Jun.	Junior.
Kg.	Kilogramme.
£	Pound.
L.	50.
L/A	Letter of Authority.
lb.	Libra (Pound Weight).
L.B.	Letter Book.
L/P	Life Policy.
L/C	Letter of Credit.
£. s. d.	Pounds, shillings and pence
Ltd. or Ld.	Limited.
Max.	Maximum.
Mdme.	Madame.
Memo.	Memorandum.
Messrs.	Gentlemen.
Mfg.	Manufacturing.
Min.	Minute.
M. O.	Money Order.
Mr.	Mister.
MSS	Manuscripts.
N/a	Non-acceptance.
N. B.	Nota Bene (Take Note).

Nett	Netto (Lowest).
N. O.	No Order.
No.	Number.
Nom.	Nominal.
N. P.	Notary Public.
O/A	Old Account.
O/a	On Account of.
O. C.	All Correct.
o/c	Overcharge.
O/D	Overdraft.
o/d	On Demand.
O. H. M. S.	On His Majesty's Service.
%	Per Cent.
°/oo	Per Thousand.
O. R.	Owner's Risk.
Ord.	Ordinary.
O. R. D.	Owner's Risk of Damage.
O/S	On Sale.
P	Per.
P/A.	Power of Attorney.
P/A.	Per Annum.
Pat.	Patent.
Payt.	Payment.
P. B.	Pass Book.
P/C.	Price Current.
p.c.	Per Cent.
P. C. B.	Petty Cash Book.
Pd.	Paid.
Per ann.	Per Annum.
Per pro.	On behalf of.
P/M.	Per Mensem.
p.m.	Post Meridiem (afternoon)
P. P.	Parcel Post.
Pp.	Pages.
Ppd.	Prepaid.
Pref.	Preference, Preferred.

Pro.	For.
Pro. forma	As a matter of Form.
Prima Facie	At first sight of.
Pro tem.	For the time being.
Pro. and Con.	For and Against.
Prox.	Proximo.
P. T. O.	Please Turn Over.
Qr.	Quarter.
R.	Rupee.
R/A.	Refer to Acceptor.
R/D.	Refer to Drawer.
Re or re	With reference to
Recd.	Received.
Recpt.	Receipt.
Ref.	Reference.
Reg.	Registered.
Retd.	Returned.
R. M. S.	Royal Mail Steamer or Royal Mail Service.
R. P.	Reply Paid.
R. R.	Railway Receipt.
R. S. V. P.	Reply if you please.
$	Dollar.
Sched.	Schedule.
Sd.	Signed.
Sec.	Section.
Sgd.	Signed.
Sig.	Signature.
Sine die	Indefinitely.
S. L.	Small Lot.
S/N.	Shipping Note.
S. P.	Supra Protest.
Sq.	Square.

SS., ss.	Steamship.
Stet.	Let it stand.
T. B.	Trial Balance.
Tele.	Telephone.
T. M. O.	Telegraphic Money Order.
T. T.	Telegraphic Transfer.
tr.	Tare.
U. K.	United Kingdom.
Ult.	Ultimo.
U. S. A.	United States of America.
U/W.	Underwriter.
V.	5.
v.	Versus.
Via	By the way of.
Viz.	Namely.
V. P. P.	Value Payable Post.
Vs.	Versus.
W. B.	Way Bill.
Wt.	Weight.
Whf.	Wharf.
X.	Ten.
x.d.	Ex Dividend.
x. in.	Ex Interest.
yd.	Yard.
&	And.
&c.	And so on.
%	By the Hundred.
°/oo.	By the Thousand.

APPENDIX III.

FEES FOR COMPANY REGISTRATION

I.—By a Company having a Share Capital.

	Rs.	A.	P.
1. For registration of a company whose nominal share does not exceed Rs. 20,000, a fee of ...	40	0	0
2. For registration of a company whose nominal share capital exceeds Rs. 20,000, the above fee of forty rupees with the following additional fees regulated according to the amount of nominal capital (that is to say)—			
For every 10,000 rupees of nominal share capital, or part of 10,000 rupees, after the 20,000 rupees up to 50,000 rupees ...	20	0	0
For every 10,000 rupees of nominal share capital, or part of 10,000 rupees after the first 50,000 rupees up to 10,00,000 rupees	5	0	0
For every 10,000 rupees of nominal share capital, or part of 10,000 rupees, after the first 10,00,000 rupees	1	0	0

3. For registration of any increase of share capital made after the first registration of the company, the same fees per 10,000 rupees or part of 10,000 rupees, as would have been payable if such increased share capital had formed part of the original share capital at the time of registration :

Provided that no company shall be liable to pay in respect of nominal share capital on registration, or afterwards, any greater amount of fees than 1,000 rupees taking into account, in the case of fees payable on an increase of share

	Rs.	A.	P.
capital after registration, the fees paid on registration.			
4. For registration of any existing company, except such companies as are by this Act exempted from payment of fees in respect of registration under this Act, the same fee as is charged for registering a new company			
5. For filing any document by this Act required or authorised to be filed, other than the memorandum or the abstract required to be filed with the registrar by a receiver or the statement required to be filed with the registrar by the liquidator in a winding up ...	5	0	0
6. For making a record of any fact by this Act authorised or required to be recorded by the registrar, a fee of	5	0	0

II.—By a Company not having a Share Capital.

	Rs.	A.	P.
1. For registration of a company whose number of members, as stated in the articles of association, does not exceed 20	40	0	0
2. For registration of a company whose number of members, as stated in the articles of association, exceeds 20 but does not exceed 100 ...	100	0	0
3. For registration of a company whose number of members, as stated in the articles of association, exceeds 100, but is not stated to be unlimited, the above fee of Rs. 100 with an additional Rs. 5 for every 50 members, or less than 50 members, after the first 100 ...			
4. For registration of a company in which the number of members is stated in the articles of association to be unlimited a fee of ...	400	0	0
5. For registration of any increase on the number of members made after the registration of the			

	Rs.	A.	P.
company, the same fees as would have been payable (in respect of such increase) if such increase had been stated in the articles of association at the time of registration ...			
Provided that no one company shall be liable to pay on the whole a greater fee than Rs. 400 in respect of its number of members, taking in account the fee paid on the first registration of the company.			
6. For registration of any existing company except such companies as are by this Act exempted from payment of fees in respect of registration under this Act the same fee as is charged for registering a new company.			
7. For filing any document by this Act required or authorised to be filed, other than the memorandum or the abstract required to be filed with the registrar by the liquidator in a winding up	5	0	0
8. For making a record of any fact by this Act authorised or required to be recorded by the registrar, a fee of	5	0	0

TABLE OF FEES

For each inspection of documents in the custody of the Registrar of Joint-Stock Companies, Bengal	1	0	0
2. For each certificate of incorporation of any company certified by the said Registrar ...	3	0	0
3. For every hundred words, or part thereof, of a copy or extract of any document or part of any document (other than a certificate of incorporation) certified by the said Registrar ...	0	6	0

III.—For an Association not for Profit.

A fixed Fee of Rs. 50 is payable.

This may be compared with—

(i) The fee of Rs. 50 payable for the registration of Society under the Societies Registration Act, 1860, and

(ii) The fee of Rs. 100 payable for the registration under the Provident Insurance Societies Act, 1912 (No. V of 1912) of a Provident Insurance Society (other than a society incorporated under the Companies Act).

IV.—For Companies established outside British India

A fee of Rs. 5 is payable for filing each document. Initially four such documents have to be filled and a fee of Rs. 20 is payable.

V.—Exemptions

No fee is payable for filing (i) the memorandum of association, (ii) the abstract required to be filed with the Registrar by a receiver, and (iii) the statement required to be filed with the Registrar by the liquidator in a winding up.

All fees under the Indian Companies Act, are payable to the Registrar in Cash.

INDEX

C

Q

R

T

U

V

W

Y

Z